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VA INSURANCE PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON
COMPENSATION, PENSION AND INSURANCE

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

SEPTEMBER 14, 1988

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CONTENTS

September 14, 1988

	Page
VA Insurance Programs	1

OPENING STATEMENTS

Chairman Applegate	1
Hon. Bob McEwen	1

WITNESSES

Bollinger, John C., associate legislative director, Paralyzed Veterans of America	13
Prepared statement of Mr. Bollinger	55
Schultz, Richard F., associate national legislative director, Disabled American Veterans	15
Prepared statement of Mr. Schultz	60
Vogel, R. J., Chief Benefits Director, Veterans' Administration; accompanied by Robert Carey, director, Philadelphia VA Regional and Insurance Center; and Paul Koons, assistant director for insurance	2
Prepared statement of Mr. Vogel	19
Wanamaker, Commander John F., USN (ret.), deputy director of legislative affairs, the Retired Officers Association	10
Prepared statement of Commander Wanamaker	46

MATERIAL SUBMITTED FOR THE RECORD

Statement:	
The American Legion	63

VA INSURANCE PROGRAMS

WEDNESDAY, SEPTEMBER 14, 1988

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:08 a.m., in room 334, Cannon House Office Building, Hon. Douglas Applegate (chairman of the subcommittee) presiding.

Present: Representatives Applegate, Bilirakis, McEwen, Johnson, and Evans.

OPENING STATEMENT OF CHAIRMAN APPLEGATE

Mr. APPLEGATE. Good morning ladies and gentlemen. We are meeting today to hear testimony from various representatives of the VA and veterans' service organizations on the status of the VA insurance program.

This is an annual review of the program, and it allows the subcommittee to get an up-to-date and up-to-the-moment status report on what is going on.

I am not aware of any particular problems existing within the program, but this hearing today will allow the VA and the organizations to point out or to make any kind of suggestions as to how the program might be improved.

I believe that we noted in the past that the VA insurance program is certainly one of the very best programs that the VA administers. This, of course, is a tribute to all of the VA officials who have managed the program over the years, and we appreciate that.

Our first witness this morning will be an old friend, Mr. John Vogel, Chief Benefits Director of the VA, who is accompanied by Mr. Robert Carey, Director of the Philadelphia VA Regional Office and Insurance Center, and Mr. Paul Koons, who is the Deputy Director. Please come to the witness table.

John, it is always good to see you, but before we recognize you for your testimony, we are going to recognize the vice chairman of the subcommittee, Mr. McEwen.

OPENING STATEMENT OF HON. BOB MCEWEN

Mr. MCEWEN. Thank you, Mr. Chairman.

I commend my friend and colleague from Ohio for this oversight hearing and for the Veterans' Administration on the Veterans' Administration life insurance programs.

This subcommittee has traditionally kept a careful eye on this effort, and I hope that this oversight has, in part, contributed to the VA's successful effort in its life insurance programs.

Mr. Chairman, the VA's programs have been a good bargain for the American taxpayer because of their very low cost, and they have been of great benefit to many veterans and their survivors.

I fully support the VA's life insurance programs and those efforts to make them better.

The VA's decision to offer an 800 telephone number to provide better service to veterans is an example of this endeavor.

I look forward to hearing the testimony of our friend, Mr. John Vogel, the VA's Chief Benefits Director. I join you in welcoming him and the program managers this morning.

Let me also add that, as always, we are anxious to hear the comments and suggestions of the veterans' organizations as to how they view these programs and how they might be improved. Their testimony is always thoughtful, and their help and guidance is essential for us to do our work well.

I thank them, and I thank you, Mr. Chairman.

Mr. APPLEGATE. Thank you very much, Mr. McEwen.

Before we proceed I would like to recognize the fact that Mr. Evans and Mr. Johnson, members of the subcommittee, are with us this morning.

John, we will let you proceed.

STATEMENT OF R. J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION; ACCOMPANIED BY ROBERT CAREY, DIRECTOR, PHILADELPHIA VA REGIONAL AND INSURANCE CENTER; AND PAUL KOONS, ASSISTANT DIRECTOR FOR INSURANCE

Mr. VOGEL. Thank you, Mr. Chairman.

With your permission, I would like to summarize the testimony that we have submitted for the record and address the major program changes and initiatives that we have undertaken since last year's oversight hearings before this committee.

As of November 2nd of last year, all new policy loans are being issued with a variable interest rate which is subject to change no more than once a year. The interest will be tied to an economic indicator that tracks long-term U.S. treasury securities.

As a result of this change, the loan interest rate for new loans was reduced from a fixed 11 percent rate to a variable 8 percent rate. When the new variable loan rate went into effect, we offered all of our policyholders who had an 11 percent loan the opportunity to exchange that loan for a variable 8 percent loan.

The new loan interest rate will not affect those loans that were issued prior to 1981 at fixed rates of four percent and five percent. The new variable loan interest rate also does not apply to United States Government Life Insurance policies which, by law, are limited to a maximum rate of five percent.

Any future change in the variable rate will be tied to the economic indicator's rate as of June of each year. Since the indicator was 8.92 percent this year, we will continue to issue new loans at the 8 percent rate, at least through September of 1989.

We have also taken action within the past several months to implement the insurance provisions of Public Law 100-322, which gave the Administrator the authority to increase the monthly payments to beneficiaries who are receiving insurance payments under one of the annuity options. As a result of this new law, the Administrator was able to authorize a 50 percent increase in the monthly installment payments to NSLI beneficiaries.

We were able to increase these payments because of the high investment yields on the reserves that are held for future payment to these annuitants. The new payment amounts went into effect on August 22nd. Notices were sent to about 120,000 annuitants who will benefit from that change.

Our actuarial staff will continue to monitor the financial status of each program to determine whether any additional adjustments are warranted for the NSLI annuitants, or whether a similar increase is warranted for the other programs.

This same public law gave the Administrator authority to directly administer the Veterans Mortgage Life Insurance Program. Since its inception in 1971, claims were paid by the Bankers Life Insurance Company of Nebraska under a group policy held by the Administrator. However, most of the other routine administrative aspects of the program have always been handled by our St. Paul Regional Office and Insurance Center and our Hines Data Processing Center. By making our own claim payments, we expect to save nearly $100,000 a year. As of September 1st, the St. Paul office began processing all new VMLI claims.

During the past year we have also taken several administrative actions which will allow us to improve the delivery of insurance services and benefits and, at the same time, reduce our operating costs.

We have continued to progress toward our goal of redesigning and updating the ADP system which supports the insurance programs. Part of this redesign project involves the development of a data entry system that will allow us to replace the use of punch cards and optical character recognition documents to update and maintain our insurance accounts with on-line data entry capability through video display terminals.

During this past year we added several new data entry functions which will allow us to process cash surrenders, conversions of term insurance to permanent plans, applications for modified life replacement insurance, applications for the new VA-matic premium payment option, and to provide computer-generated responses to several common types of insurance questions.

These new functions have been added to our existing ability to get instant access to information on the status of an insured's account and to process loans and address changes.

The major benefit of this new on-line system is the editing capability which helps ensure that when we make entries into the system we won't have system rejects which cause processing delays and, frankly, cause us to have to do work over again.

Those editing capabilities have improved our quality and timeliness, and we expect to complete the transition to on-line data entry by 1992.

The most significant change, however, was mentioned by Mr. McEwen, and that is our 800 toll free service put into effect for our policyholders and beneficiaries.

With the introduction of that new service, we have been able to make dramatic improvements in both the quality and timeliness of the responses that we make to policyholders' requests for information and actions on their policies.

For example, we have been able to cut the average response time down from 11 days for a written inquiry to a matter of minutes for most of our phone inquiries.

The new system takes advantage of both modern telecommunications equipment and the technology of our redesigned insurance data processing system that provides our insurance specialists with immediate access to the insured's account.

Since that service became available in April, we have answered over 200,00 calls, and are currently averaging about 2,400 a day. To help ensure the quality of the responses that we provide in our newly designated Veterans Insurance Phone Section, which we refer to as the VIP Section, we have adopted a case management approach under which 96 percent of all calls are worked to completion by the specialist who takes the call.

We believe that this personalized approach will minimize referrals and help ensure that the caller will get both a timely and an accurate response to his or her request for assistance.

In taking this initiative we anticipated some cost savings as we replaced written correspondence with telephone calls; however, the real benefit in this service lies in the improvements that we are making in responding to policyholders' requests for service.

In one key area alone we have seen a 77 percent decline in the volume of correspondence that we receive from policyholders who express dissatisfaction with the service they receive. At the same time, we received numerous complimentary letters from policyholders expressing their appreciation for the service provided to them by our VIPS staff.

We also have the ability to take advantage of the direct contact with our policyholders on the phone to not only respond to their questions, but to take the extra step of informing them of some of the important options available to them, such as buying additional insurance with their dividends.

We also plan to use the phone to encourage alternative premium payment options, which is an area that we have concentrated on in the last year.

In July of this year, we introduced a new premium payment option which we refer to as the VA-matic premium option. Under that option, policyholders may elect to have their premiums automatically deducted from their checking accounts each month through a wire transfer between their bank and the Federal Reserve Bank.

This new option affords policyholders the convenience of automatic payments, and will result in reduced processing costs for the VA. All policyholders who pay their premiums directly to the VA are being notified of this option through a mailing which will run through the end of this year.

We have also conducted a mailing this year to all policyholders who are receiving VA compensation or pension benefits, encouraging them to authorize a deduction from their monthly benefit check to pay their premium. Approximately 21 percent of the 190,000 policyholders that we contacted have opted to pay their premiums under this option.

We also have two program enhancements in the planning stage which will require enabling legislation. The first would give us authority to pay interest on death claims and matured endowments from the date of death or maturity to the date of payment. This is a common practice in the commercial insurance industry, and reflects our efforts to allocate interest earnings among policyholders and beneficiaries according to their equitable interest in the reserve funds.

The second enhancement requiring legislation involves the authority to increase the premium discount rate that is given to policyholders who pay premiums in advance of their due date. Currently the discount is limited by law to an annual rate that ranges among the programs from 2½ percent to 3½ percent.

We are also working on two program modifications that can be accomplished by amending our regulations to allow us to cap premiums for VSLI term policyholders as we did for NSLI policyholders several years ago, and to replace sex differentiated annuity tables that are used for the VSLI, VRI, and SDVI programs.

In the supervised programs, we are pleased to report that we have been able to maintain the cost of SGLI coverage for active duty, ready reserve, and National Guard members at the low cost of $4 per month for $50,000 of insurance for at least another policy year.

This will be possible, in part, because of several cost-cutting measures taken by the Office of Servicemen's Group Life Insurance and the recent legislation that exempts the program from state premium taxes. With this new legislation the program's expenses will be reduced by over $4 million annually.

During the past year we have concentrated our efforts, with the cooperation of the Department of Defense, on developing enrollment procedures at the separation centers that will allow servicemen to apply for VGLI insurance at the time of separation.

In the past, we have relied on a mailing to recently-separated veterans, and we believe the program participation has suffered from the fact that veterans have had a hard time differentiating this government-sponsored program from other insurance programs that are sold and marketed specifically to veterans by commercial insurance companies.

Our initial test results of these new enrollment procedures at Fort Dix have been extremely favorable. Over 55 percent of those eligible for VGLI have applied for the coverage at Fort Dix, as compared to a 30 percent participation rate that results from our mailings.

The Department of the Army will be implementing these procedures nationwide this month, and similar procedures for the Air Force are planned to take effect later this year.

Mr. Chairman, that concludes my remarks. I would be pleased to answer any questions you may have.

[The prepared statement of Mr. Vogel appears on p. 19.]

Mr. APPLEGATE. Thank you very much, John.

Do Mr. Koons and Mr. Carey have anything that they would like to say at this time?

Mr. KOONS. No, sir.

Mr. CAREY. No, sir.

Mr. APPLEGATE. Gee, that's pretty good. We lucked out.

John, just for the record let me ask you about the toll-free telephone number. During what hours does that line operate?

Mr. VOGEL. It is available from 8 to 5:30 eastern time.

Mr. APPLEGATE. Is this adequate, or do you think that additional hours are needed?

Mr. VOGEL. We are monitoring the traffic volumes and will, in fact, make inquiries of people who access it about their reaction to the available time. If needed, we can expand that.

We are really doing this on a test basis as of now, and if expanding that time improves service to our policyholders we are prepared to do it.

Mr. APPLEGATE. How many lines do you have?

Mr. VOGEL. We have 30 lines, sir.

Mr. APPLEGATE. Thirty lines? So that means that if you dial one and it is busy it will hook onto another?

Mr. VOGEL. Yes, sir. It is the most up-to-date telephone equipment, so it works on a sequence arrangement. If you call in, it searches for an available line.

We have had very, very good experience with the call acceptance rates on that.

Mr. APPLEGATE. We'll hear proposals later from the organizations regarding such matters as increasing the amounts of coverage under SGLI and under Service Disabled Life Insurance, known as the RH policies.

Would you like to respond to any of those ideas since you are sitting up here?

Mr. VOGEL. Yes. If all of our current policyholders—I'm talking now about RH insurance, the SDVI insurance—took advantage of an increase, as has been suggested from $10,000 to $50,000, and we continued to charge the same premium rates for that additional coverage and include the waiver of premium disability provisions, our actuaries estimate that the annual subsidy for fiscal year 1990 would increase from approximately $12 million to $59 million, and the unfunded liability of the government for that program would increase from about $370 million to approximately $1.25 billion.

Mr. APPLEGATE. The $10,000 has been in since when?

Mr. VOGEL. Since the inception of the program in 1951. It has been $10,000 since that time.

Mr. APPLEGATE. Yes, since 1951.

Well, along that same line—of course, that would mean that if we were to increase it, as you say, to $50,000, and keep the same premium and everything that goes with it, that means that it would have to be subsidized.

Mr. VOGEL. It receives a subsidy now. It would just increase the subsidy amount.

Mr. APPLEGATE. Increase it?

Mr. VOGEL. From $12 million—if it went from $10,000 to $50,000—to $59 million.

The program is really not true insurance in the sense that the premiums paid by the insured don't cover the expected mortality costs. For every dollar that the insured pays, another 66 cents is paid by the government. They are paying standard premium rates and they are substandard insurance risks, and the government has paid the difference.

Mr. APPLEGATE. Well let me ask you this, since we are talking about the policy premiums: the Retired Officers Association says that the policy premiums under the SGLI program are currently higher than comparable private sector plans. Would you like to respond to that?

Mr. VOGEL. Yes, I would like to respond to that. About three or four years ago we reduced the premiums from nearly 12 cents per thousand per month to 8 cents per thousand per month. So if a serviceman—and almost all of them do—takes the full coverage at $50,000, it winds up costing $4 a month for that amount of coverage.

Mr. MCEWEN. Did you say $50,000?

Mr. VOGEL. For $50,000 it costs them $4 per month for the coverage.

Mr. MCEWEN. Thank you.

Mr. VOGEL. The 8 cents per month per thousand is below the break-even point. Last year we received in premiums about $164 million, but the death claims paid out were $196 million. So we are below the break-even point at 8 cents per month per thousand.

That premium reduction that we made in the recent past was about a 23 percent premium reduction, and our actuaries monitor that very closely. It is likely that in the next few years we may have to raise that premium a little bit to make up for the shortfall.

We are now drawing down the contingent reserve because we, frankly, had let it grow a little more than we needed. The insureds are the beneficiaries of that change.

Mr. APPLEGATE. One other thing that the Disabled American Veterans propose is that you provide for an open period for eligible service-disabled veterans under the RH program. What do you——

Mr. VOGEL. I'd ask Mr. Carey to respond to that if I may.

Mr. CAREY. I think there are a few things with that. In the mid-1960's there was an open period for the World War II insurance, and the response to that was not real great.

Mr. APPLEGATE. In what way?

Mr. CAREY. In terms of the total number of people that responded and took the insurance.

The other aspects of having an open period would be that once again we would be dealing—assuming all policy provisions would be the same as we have now, with a subsidy.

Right now for every $10,000 policy there is really an unfunded liability for the government of about $4,000. So there would be an unfunded liability for every new $10,000 policy issued of about $4,000.

Of course, too, there would be increases in our administrative costs to handle any re-opened program like that.

Mr. APPLEGATE. So what do you think it would take to offset that?

Mr. CAREY. If we were to establish a premium that would fully cover the cost, the premium would probably be very high and probably prohibitive.

Mr. APPLEGATE. Okay.

Well, I thank you very much, and I will recognize my vice-chairman, Mr. McEwen.

Mr. MCEWEN. Thank you, Mr. Chairman.

I believe that the chairman has raised the questions that we had.

Particularly I wanted your response to Commander Wanamaker's question of the Retired Officers Association. I appreciate your addressing that.

The only other thing I would add would be the question of the hoax that comes up annually concerning veterans' insurance. Any advice or counsel?

Mr. VOGEL. My bag of tricks is empty on how to try to stop that.

We are still getting about 4,500 inquiries per week about that, and we respond to those after we respond to all other active insurance-related business and inquiries, which really means that, frankly, some of those hoax inquiries go unanswered.

The same thing pops up from time to time. Something makes it surface from time to time. It clearly costs, administratively, quite a bit.

If we attempted to be as responsive to those hoax inquiries as we are to the inquiries of our active policyholders, we would incur a significant additional administrative cost which would just drag us down.

I don't know whether Mr. Carey or Mr. Koons would like to comment on that hoax thing or not.

Mr. MCEWEN. What percentage of your 800 calls are concerning that? Do you have any idea?

Mr. VOGEL. Very minimal, sir. The method of notification of people about the 800 number came through to active policyholders mailings, as well as publicity by the veterans' service organizations. So, most of the people who have the 800 number are active insureds or beneficiaries, and they are accessing that 800 toll-free number.

Mr. MCEWEN. Now, all the advertisements we see on television concerning veterans, are any of those yours? Do you do any advertising?

Mr. VOGEL. No, sir. No, they are not ours. That is a commercial insurance company, National Liberty——

Mr. MCEWEN. Only one?

Mr. VOGEL (Continuing). National Liberty is the one of which we are most aware . I think they are in Valley Forge, Pennsylvania, and it is a subsidiary unit of that company that does the marketing.

We have been sensitive to that because insureds do, in fact, become confused about the VA.

Mr. MCEWEN. We don't advertise at all on television?

Mr. VOGEL. We do not. With the exception of the Servicemen's Group Life and Veteran Group Life insurance, and RH insurance, we are closed, essentially, to new coverage—and Veterans Mort-

gage Life Insurance. We don't really have any particular marketing efforts.

From time to time we pass on concerns about that commercial insurance—where they are confused about whether it is government sponsored insurance or not—to the respective insurance commissioners of the states.

Mr. CAREY. Yes, we do receive complaints at times, and we will pass them on to the insurance commissioners in the state where they reside and also send them to the insurance commissioner of Pennsylvania. A couple of years ago, under a consent decree, the life insurance company agreed to put a notice in all of their advertising that they are not affiliated with the United States Government. They were also fined a small amount.

We still receive inquiries and complaints concerning, this insurance however,

Mr. MCEWEN. Do they use the term "federal"?

Mr. CAREY. No, I don't believe so.

Mr. MCEWEN. Thank you, Mr. Chairman.

Mr. APPLEGATE. Mr. Johnson?

Mr. JOHNSON. Thank you, Mr. Chairman.

I think most of the questions I had have been asked.

One question I would inquire of: you alluded to the additional cost of a raise from $10,000 to $50,000 in the level of coverage. It has also been suggested that the maximum insurance available under SDVI be increased from $10,000 to $20,000.

Now, would this have a purely proportional impact in cost, or is there a different factor?

Mr. VOGEL. No. It would be proportional. The way the program runs now, for every $1 in premium that we collect from an insured, another 66 cents will ultimately have to be provided by the government to subsidize the program.

In fiscal year 1990 there will be about $12 million in contributions from the government to that program for the $10,000 face amount; so it would be about $24 million if we doubled the face amount and the premium rates stayed the same and the number of insureds stayed about the same.

Mr. JOHNSON. There is also legislation to go not with an open period, but to extend from one year to two years the period to apply for SDVI. Your testimony here, as in the past, is that when you have opened it up there has not been a great rush of sign-ups when you have opened up sign up periods.

Would you have any great opposition to simply open it up for an additional year, then, in light of your past experience?

Mr. VOGEL. No we wouldn't, Mr. Johnson. Not at all.

Mr. CAREY. One of the things we are doing in that area to ensure that the veterans are informed is to take what has been more of a clerical process and doing some work to computerize it to ensure that all veterans are informed of their privilege and right to purchase insurance.

Mr. JOHNSON. Very good.

No further questions, Mr. Chairman.

Mr. APPLEGATE. Well, I have no further questions, and I think that you have answered a great deal of the questions and concerns that we have. I don't think there is any question about the fact

that, as I mentioned in my opening remarks, the program appears to be basically sound and well administered, and we are certainly happy for that.

What we are doing today is carrying out the mandate of the law that we have an oversight hearing once a year. And it is good to hold these, because if, in the event that there are any problems, or *whatever questions may arise, we can get the answers.*

Mr. VOGEL. I appreciate your kind remarks about the management of the program, and would like to publicly thank you and the members of this subcommittee. It clearly is not just us; it is the effective oversight and watchfulness of this committee which enables us to do what we are doing as well as we do it.

Mr. APPLEGATE. John, thank you very much. Mr. Carey and Mr. Koons, thank very much for appearing before the committee.

Mr. VOGEL. Thank you, sir.

Mr. APPLEGATE. We have one panel today of very distinguished members of veterans organizations: Commander John Wanamaker, USN Retired, Deputy Director of Legislative Affairs of the Retired Officers Association; Mr. John Bollinger, Associate Legislative Director of the Paralyzed Veterans of America; and Mr. Rick Schultz, Associate Legislative Director of the Disabled American Veterans.

Gentlemen, this is old hat to you, so if you drew straws, I recognized the commander first, and Mr. Commander, if you would like to proceed that would be fine.

STATEMENT OF COMMANDER JOHN F. WANAMAKER, USN (RET.), DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Commander WANAMAKER. Thank you, Mr. Chairman.

Before starting with my prepared text, I would like to comment on the 800 number that has been established by the insurance section in Philadelphia, and I want to say that my first introduction to that number, itself, was quick, efficient, accurate, and very helpful. So I want to commend them in that effort, and I hope that it is retained.

Mr. Chairman and members of the committee, I am Commander John Wanamaker, the Deputy Director of Legislative Affairs for the Retired Officers Association, which has its national headquarters at 201 North Washington Street in Alexandria, Virginia.

Our association has a membership of over 357,000 active duty, retired, and reserve officers of the seven uniformed services. Included in our membership are approximately 50,000 auxiliary members who are survivors of former members.

And incidentally, Mr. Chairman, I would think that each and every one of the membership of whom I spoke have at one time been a participant or are now beneficiaries of the insurance programs administered by the Veterans' Administration.

My purpose today is to present the views and opinions of the members of the association relating to the various insurance programs administered by the Veterans' Administration.

First, the Servicemen's Group Life Insurance program is the current program which provides coverage for the active duty and reserve forces.

The Congress, by the enactment of Public Law 99-166, increased the maximum SGLI coverage to $50,000. The insurance needs of military personnel were only partially met by that action.

A Congressionally-mandated review of military compensation conducted by the Fifth Quadrennial Review of Military Compensation in December, 1983, recommended that, in addition to increasing the coverage to $50,000, that an additional coverage of $50,000 on a voluntary basis be provided by that program.

In the interest of conserving time, I am providing the findings and recommendations of the Fifth Quadrennial Review as they pertain to the SGLI program.

Mr. Chairman, while our association members endorse the findings and recommendations of the Fifth Quadrennial Review, I would call to the committee's attention that the last recommendation, which is to review the SGLI coverage for adequacy and premium rates for appropriateness at least once every four years.

The last major change to the program was in 1985, and since there is established by section 774, title 38, U.S. Code, the Advisory Council on Servicemen's Group Life Insurance which meets each year, I would urge the committee to require that panel to undertake a review suggested by the Fifth Quadrennial Review and report to the Congress its findings and recommendations.

I would specifically hope that the panel would compare the premium cost with private insurers and make an overall comparison with the insurance coverage provided civilian employees of the Federal Government. Insurance requirements of our service members are equally important.

Career service members who rely on the SGLI program to provide their insurance needs find that they must find, later in life, a new insurance when premiums to enter such programs are considerably higher than they would have been had they participated at an earlier age.

It is strongly urged that this issue of long-term or lifetime coverage be addressed by providing coverage for those careerists who remain on active duty for 20 or more years, which then can be extended at low group rates into retirement until at least age 65. At that point, there could be options similar to the civil service program to gradually reduce the coverage as insurance needs diminish.

It is hoped that the recommended report be submitted to Congress not later than February 1, 1989, so that any legislative action can be taken up early in the next Congress.

Mr. Chairman, the SGLI program, which, in most instances, provides a lump sum payment to a service member's survivors upon his death, cannot be considered in total isolation.

One might consider that the $50,000 maximum SGLI coverage insurance to be a lot of money, but it if questionable if that amount would be sufficient to pay for the future college education of a single child.

Although these hearings today are centered on insurance aspects of survivor benefits, the inadequate income levels provided to survivors by the Dependency Indemnity Compensation Program should also be taken into consideration.

The DIC annuities for surviving spouses of all the enlisted grades is currently $707 or less per month. In many cases, that amount is insufficient to provide the rent or mortgage payment.

Often, a large proportion of the initial insurance payment is expended to make a transition to a reduced family income status.

In asking for a complete review of the insurance program, I believe it necessary for that review to include the adequacy of the DIC program, as well.

I call the committee's attention to the first of the findings of the Fifth Quadrennial Review. In brief, the findings were that the cost of the SGLI program was higher than comparable private sector plans.

Under the circumstances, I would urge the committee to have an outside evaluation done by a disinterested agency as either the Congressional Research Service or the General Accounting Office, to determine if it might be more beneficial for both the insured and the government to bring the SGLI program in-house, or by introducing greater competition into the contracting process.

The highly successful administration of the SGLI program and the NSLI program can attest to the ability of the Veterans' Administration to administer such programs.

The often-expressed reasons that the Congress wants to get out of the insurance business is really not sufficient. The government is in the insurance business whether it wants to be or not, and the final concern should be that the program best meets the needs of the insured at the minimum cost to the veterans and the government.

If the current program is not providing adequate coverage at the least cost for both the insured and the government, then it is time to take another look at alternatives.

The second program is the National Service Life Insurance Program, NSLI.

With the enactment of Public Law 100–322, the Veterans' Administration Administrator is provided the authority to make adjustments to the monthly insurance installments payable to beneficiaries of the NSLI program without regard to section 202, title 38.

Mr. Chairman, the NSLI program was established in 1940—nearly 48 years ago. The criteria used to establish the rates have proven to be unrealistically conservative.

On April 24 the Administration approved a proposal to increase the interest bases to determine the NSLI paid-up additions from 3.5 to 4.5 percent. A more realistic and fair increase would be to increase on the basis of computing the paid-up additions by the actual annual interest received on the reserve fund for the preceding year.

If the Administrator should feel that he would require some additional safety margin, then it could be experienced at the interest rates less one or two percentage points.

This provision of the NSLI program which enables a policyholder to elect paid-up additions is especially beneficial to those who may be disabled, as this may be the only avenue open to them to obtain additional insurance coverage.

It is recommended that the committee consider revising the criteria established in section 202 to reflect the current interest expectations and updated mortality experience.

I will interject at this time, Mr. Chairman, that the comments of Mr. Vogel this morning and Mr. Carey that they now are doing this and changing these things are a step in the right direction and we appreciate it.

In closing, I question the policy to continue to build up the reserve fund. The Administration has estimated that the NSLI program, during fiscal year 1989, will experience a drop in the amount of insurance in force by over $300 million while, at the same time, increasing the reserve by over $220 million.

During fiscal year 1989, the interest and premiums earned revenue, estimated to be nearly three times the amount necessary to pay the death claims for that year. I would think that it would only be proper to reduce the reserves at the same rate of the reduction of insurance in force so that the fund would be depleted at the same time the last policy is paid.

Thank you, Mr. Chairman, for allowing our organization the opportunity to provide their views on these important issues.

I will attempt to answer any questions you may have at this time.

[The prepared statement of Commander Wanamaker appears on p. 46.]

Mr. APPLEGATE. Thank you very much.

We will hold our questions until all members of the panel have given their testimony.

John?

STATEMENT OF JOHN C. BOLLINGER, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. BOLLINGER. Thank you Chairman Applegate and members of this subcommittee.

As always, it is a pleasure to be here this morning and testify before you on behalf of the members of PVA. We appreciate this opportunity to present the views and concerns of our organization regarding the VA's life insurance programs.

At the outset, I'd like to say that we believe the operation of VA's life insurance programs represents one of the highlights of the Department of Veterans' Benefits, and I congratulate John Vogel, Bob Carey, and Paul Koons for a job very well done.

With cash reserves totaling over $13 billion, the program does, indeed, make significant contributions towards providing adequate insurance coverage for all veterans, their dependents, and families.

In addition to that, I congratulate the staffs of the two VA insurance centers in St. Paul and Philadelphia. They have track records second to none. They react quickly to problems, they implement changes in an efficient manner, they exemplify professionalism and compassion when dealing with the public, and PVA extends our appreciation to these dedicated individuals.

As you know, for many of PVA's members VA life insurance and mortgage protection represent the single source of insurance cover-

age to individuals otherwise ineligible to commercial coverage due to severe and total disabilities.

So today I wish to discuss two programs which most directly affect our members. They are the Service Disabled Veterans Insurance—or RH insurance—and Veterans Mortgage Life Insurance.

As you know, RH insurance was designed over 35 years ago, and the maximum face value is $10,000.

PVA's concern, as was discussed earlier this morning, is with the low amount of insurance coverage provided under this type of policy compared to what private insurers recommend.

It is real important here to keep in mind that this coverage, again, is the only life insurance a service-connected veteran can obtain. And although one becomes eligible for it by virtue of his service-connected disability, it is this same service-connected disability—especially in the case of a catastrophically disabled veteran—that makes it close to impossible to obtain additional and much-needed life insurance from a commercial company at a reasonable premium.

In my written testimony I have discussed the optimum scenario with regard to appropriate coverages as are recommended by private insurers. This would represent complete coverage, as suggested by these people.

I appreciate the comments of John Vogel this morning regarding the increased government subsidies that would be required if we were to do this.

We are aware of the potential cost of increasing allowable maximum face values on RH life insurance policies. So we feel our objective at this time, therefore, must be to provide equitable and adequate life insurance protection for RH policyholders while maintaining a realistic price tag on such a provision.

Again, I have gone into some detail in my written testimony, but I have suggested some alternatives to the complete coverage scenario which we believe would fulfill such a goal.

They include the use of DIC eligibility requirements for beneficiaries of RH policies in receipt of proceeds in excess of the basic $10,000 coverage.

Also perhaps limiting eligibility for increased coverage to individuals who have been awarded waiver of premiums. As I understand it, only about 25 percent of those RH policyholders actually have waiver of premium, so this would reduce the amount of eligibles significantly.

Figuring the appropriate face value as calculated on a lower base income, and requiring that all amounts of increased coverage be available for purchase at substandard premium rates—rates that could be set at a reasonable level for the veteran policyholder; yet, at the same time, not cost prohibitive in terms of government subsidies, would also reduce the overall cost.

Mr. Chairman, in my written testimony I have also discussed the results of an insurance needs survey which we conducted in the March issue of our magazine. We feel the results are revealing.

The need for sufficient life insurance is a valid reality, not unlike the need for cost of living adjustments and benefit program improvements.

The many individuals who responded to our survey are very real people concerned about the welfare of someone who has devoted years to their care.

In the absence of DIC reform, these veterans are rightfully concerned that VA life insurance will not come close to providing adequate financial protection for their families and their survivors.

Mr. Chairman, service-connected veterans—especially those who have catastrophic injury or disease—have been left far behind their non-veteran counterparts in the area of life insurance.

We encourage this subcommittee to consider alternatives to the present SDVI program. We believe that such alternatives do exist which place a workable solution within our reach.

PVA's concern with the present Veterans Mortgage Life Insurance program is two-fold. First, we believe the 12-year-old, $40,000 limitation does not adequately reflect the current housing market.

In the same 12-year period, national home builders reports that housing costs have more than doubled. So it is pretty clear that VMLI has not kept pace with today's economic situation, and we, therefore, suggest that VMLI maximum coverage be increased to more accurately reflect the increased amount of mortgage which is likely to remain after a veterans death.

Our second concern regarding this program pertains to the provision which terminates VMLI coverage on the veteran's 70th birthday.

Obviously, the importance of VMLI coverage is equally critical to the survivors of veterans who die after age 70, as well as the survivors who die before age 70.

We urge this subcommittee to consider the elimination of the current 70-year age restriction in order that the survivors of these older, severely disabled, service-connected veterans can also benefit from the objective of Veterans Mortgage Life Insurance.

Mr. Chairman, I would again like to express the appreciation of the Paralyzed Veterans of America for being afforded this opportunity to present our concerns.

That concludes my statement. Thank you.

[The prepared statement of Mr. Bollinger appears on p. 55.]

Mr. APPLEGATE. Thank you very much, John.

Rick?

STATEMENT OF RICHARD F. SCHULTZ, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. SCHULTZ. Thank you, Mr. Chairman.

At the outset I wish to thank you and the members of the subcommittee for the opportunity to present the DAV's views relative to the VA's various insurance programs.

Mr. Chairman, as you know, the VA is responsible for a number of insurance programs which include the U.S. Government Life Insurance, National Service Life Insurance, Veterans Mortgage Life Insurance, Servicemen's Group Life Insurance, and Veterans Group Life Insurance.

These insurance programs provide coverage to veterans from World War I up to the present time.

As has been indicated by you, Mr. Chairman, and the witnesses here today, the VA is doing an outstanding job in administering these programs, and we commend them for this fine job.

Mr. Chairman, the delegates to our most recent national convention adopted resolutions pertaining to the VA's life insurance program, and with your permission I would like to address four such resolutions.

DAV resolution number 041 calls for the enactment of legislation to provide an open period of enrollment for eligible service-connected disabled veterans to apply for the service disabled veterans' insurance. Many service-connected disabled veterans, due to financial difficulties and situations associated with adjustment to civilian life, did not apply for this coverage; therefore, we believe it appropriate that an open enrollment period similar to that offered under the veterans' re-open insurance be made available to these veterans.

Our resolution number 043 seeks to extend the Veterans Mortgage Life Insurance coverage to veterans rated permanently and totally disabled as a result of service-connected disabilities.

For the most part, due to prohibitive cost, veterans in this category are unable to purchase mortgage protection insurance due to their service-connected disabilities.

Mr. Chairman, at the request of the DAV, House Veterans' Affairs Committee Chairman Montgomery and Ranking Minority Member Solomon introduced H.R. 3114. This measure would accomplish the goal of resolution 043, providing much needed mortgage protection to survivors of veterans who are permanently and totally disabled as a result of service-connected disabilities. Therefore, we recommend H.R. 3114 be given favorable consideration by this subcommittee.

Resolution number 066 seeks enactment of legislation to increase the maximum insurance available under the Service Disabled Veterans Insurance Program from $10,000 to $20,000.

Mr. Chairman, as you know, and has been mentioned here today, the face value of this insurance has never been increased. While $10,000 life insurance was deemed adequate in 1951 when this program was first instituted, obviously today this is not adequate; therefore, we also strongly urge the subcommittee to act favorably on H.R. 2352, introduced at our request also by the chairman and ranking minority member of the House Veterans' Affairs Committee to increase the maximum face value of the SDVI to $20,000.

Finally, Mr. Chairman, resolution number 245 seeks to extend from one year to two years the period to apply for this insurance.

H.R. 2348, also introduced at our request by Chairman Montgomery and Ranking Minority Member Solomon, recognizes that many service-connected disabled veterans have not applied for this insurance within the one-year period, and we, therefore, recommend that this measure also be given favorable consideration by the subcommittee.

This concludes my statement, and I thank you for the opportunity to appear here today.

[The prepared statement of Mr. Schultz appears on p. 60.]

Mr. APPLEGATE. Thank you very much, Rick.

Certainly the committee will take into consideration the recommendations of each of the veterans' organizations, and I personally want to thank each of you for coming in and making the views of your organization known. It will certainly help us to be able to, maybe at a future date, make these programs more equitable and better than what they are today.

I have no questions at this time; however, I may have some. There are some in the back of my mind, but we may submit those to each of you for answers.

At this time I will recognize the vice chairman of the committee, Mr. McEwen.

Mr. MCEWEN. I thank them as well,and I will submit questions that I may have to them in writing.

Mr. APPLEGATE. We also have Mike Bilirakis, who has joined us from the great State of Florida—the State that Ohio makes green.

We will recognize Mr. Bilirakis at this time.

Mr. BILIRAKIS. I have nothing, Mr. Chairman. I apologize for being late, and commend you for holding this hearing on this subject.

Mr. APPLEGATE. We will leave the record open for one week in case other organizations should also wish to submit their views.

Your prepared texts will be made a part of the record, without objection.

Gentlemen, thank you very much for joining us.

[Whereupon, at 10:03 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

APPENDIX

Statement of

R.J. VOGEL

Chief Benefits Director

before the

Subcommittee on
Compensation, Pension and Insurance

House Committee on Veterans' Affairs

September 14, 1988

Mr. Chairman and Members of the Subcommittee:

We appreciate and welcome this opportunity to address the subcommittee and provide you with the current status of the Government life insurance programs that are supervised and administered by the Veterans Administration. We will focus our testimony in particular on the program changes and administrative actions we have taken since last year's oversight hearing to improve the financial benefits and services that we provide through the eight Government life insurance programs.

The life insurance programs administered and supervised by the Veterans Administration currently provide over $214 billion in insurance protection to 7.1 million veterans and members of the uniformed services. There are only four commercial life insurance companies in the United States who provide more life insurance coverage than the combined total of all the VA's life insurance programs. (Exhibit A)

Financially, all of the programs that were designed to be self-supporting are in a sound financial position. Sufficient reserves have been set aside for the United States Government Life Insurance (USGLI), National Service Life Insurance (NSLI), Veterans Special Life Insurance (VSLI), and Veterans Reopened Insurance (VRI) programs to ensure that the programs' future liabilities will be met without the need for appropriated funds. The only exceptions are the extra-hazard payments for the USGLI and NSLI programs which are, by law, paid for by the Government. Extra-hazard payments are authorized for any death or disability claim where death or disability is directly attributable to an injury or disease which resulted from the extra hazards of military or naval service. We have provided a summary report (Exhibit B) on the amount of funds invested in U.S. Government Securities and loaned to policyholders, together with the average rate of return on these investments for each of the trust funds as of June 30, 1988. Exhibit C shows the percentage of trust funds invested in U.S. Treasury Securities and the percentage that has been lent to policyholders. Exhibit D provides a comparison of the average rate of return on the NSLI trust fund investments and the rate of return on the aggregate investments of all commercial life insurance companies in the United States.

The Service-Disabled Veterans Insurance (SDVI) and Veterans Mortgage Life Insurance (VMLI) programs, which insure the lives of disabled veterans at standard premium rates, continue to require annual subsidies from appropriated funds as expected. Since the premium income is not sufficient to cover all of the programs' expenses, the excess costs of SDVI and VMLI claims are covered by a transfer of funds from the

Veterans Insurance and Indemnities (VI&I) appropriation. During Fiscal Year 1987, $2,289,000 was transferred from the VI&I account to the SDVI program. The total Government subsidy since the inception of the program has been $115,170,677. Consequently, unlike the other programs, there are no reserves to fund the future liabilities of the SDVI program. Our actuarial staff estimates that if all the current SDVI policies are carried to their maturity, there is an unfunded liability which, on a statutory accounting basis, would amount to $370 million.

In the Veterans Mortgage Life Insurance program a subsidy of $4.5 million was required in calendar year 1987. Since the inception of the program $53.2 million in appropriated funds have been required to subsidize this program for seriously disabled veterans. Approximately $3 in appropriated funds are required for every $1 in premium income to cover the costs of the VMLI program, which currently insures approximately 5,500 veterans who are entitled to a specially adapted housing grant.

Although the USGLI, NSLI, VSLI, and VRI programs are generally self-supporting, the law requires that the United States bear the costs associated with administering the Government life insurance programs. The only exception is the Veterans Reopened Insurance (VRI) program, which is totally self-supporting.

During fiscal year 1987, the total administrative cost attributable to the insurance programs was $28,165,000. Of this amount, $334,000 was reimbursed from the SGLI fund for supervision of the Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) programs. A total of $1,316,000 was reimbursed from the VRI fund as required by law for administration of the VRI program. The net cost borne by the Government was, therefore, $26,515,000. This represented an average of $7.97 per policy maintained for fiscal year 1987.

Exhibits E-1 through E-6 provide a statistical profile for each of the administered programs which includes the number insured by each program and the average face amount of each policy, as well as the total coverage provided and annual death rates.

Our total disbursements, including policy loans, for the USGLI, NSLI, VSLI, VRI, and SDVI programs this year are projected to be approximately $1,750,000,000. Of this total, $955,000,000 will be paid in dividends to 3,005,451 policyholders with participating policies.

In administering these Government life insurance programs, we have developed several initiatives that we believe will enhance the financial benefits provided and improve the delivery of services to our policyholders and their beneficiaries. I would like to discuss some of these program enhancements as well as the projects that are designed to modernize the technology used to deliver insurance benefits and services.

At our last oversight hearing we discussed our plans to establish a variable interest rate for new National Service Life Insurance (NSLI) policy loans. The final regulatory amendment was published in the Federal Register on October 2, 1987. The new regulation provides for a variable interest rate on all new NSLI loans issued after November 2, 1987. The

variable interest rate is based on an economic indicator, the June U.S. Treasury Securities, 10-year constant maturities. The indicator will be reviewed each year and a rate change will be triggered by movement of the indicator to a higher or lower interest rate. If a change is necessary, it will be made effective on the first day of October. Rate changes will not be made more frequently than once a year. The rate will be set at the level of the economic indicator rounded down to the next whole number. As part of the regulation we established a maximum ceiling of 12 percent and a minimum floor of 5 percent. These rate limits were set to protect policyholders from potentially high interest rates, while at the same time ensuring the financial integrity of the programs.

The initial loan interest rate for the period between November 1987 and September 30, 1988, was set at 8 percent per annum. As of June 1988, the economic indicator was 8.92 percent. Consequently, the rate will remain at 8 percent at least through September 1989. We believe that the variable loan rate with the use of an economic indicator is a more equitable method of determining interest rates in that it allows us to bring earnings on loans more in line with the earnings on new U.S. Treasury Security Investments. Since dividends for all policyholders are based in part on the investment earnings of the program's reserves, this action ensures that both borrowers and non-borrowers are treated on a more equitable basis.

Another benefit enhancement which was recently implemented is the increase in payments to NSLI beneficiaries who are receiving insurance proceeds under one of the annuity options. This increase was authorized by Public Law 100-322. As a result of this new law, the Administrator was able to authorize a 50 percent increase in the monthly installment payments that are sent to NSLI beneficiaries. We were able to take this action because of the high yields on the invested reserves that have been held for payment of the NSLI "V" annuity settlements. Before this increase, a 3 percent interest factor was used to determine the amount of each monthly annuity payment, while the reserves being held for this purpose are currently earning interest at 9.39 percent. Subsequent adjustments will depend on future interest earnings and mortality experience. Initially, 120,000 beneficiaries will benefit from this increase. The increase in the monthly installment checks took effect on August 22, 1988.

During the past year, we have also taken several administrative actions which will allow us to improve the delivery of our insurance services and benefits and reduce our operating costs.

We have continued to progress toward our goal of redesigning and updating the Automated Data Processing (ADP) system which supports the Insurance program. Phase I of the Redesign Project, the inquiry phase, was completed in 1985. Phase II, the data entry phase, has been partially installed. In addition to our ability to process loans, address changes, and requests to pay premiums through an allotment from service pay or deduction from a VA benefit payment, we have gained the capability to process on-line conversions of term insurance to a permanent plan, cash surrenders, applications for replacement insurance, and preauthorized debit premium payments.

We have also gained the ability on-line to release forms and form letters to insureds in response to their inquiries. The major benefit of our on-line data entry system is its ability

to ensure that transactions are correct before they are submitted for processing. This editing capability reduces errors and has allowed us to substantially improve the quality and timeliness of our manually prepared input transactions. We estimate that Phase II of the Insurance ADP Redesign Project will be completed by 1992.

The most significant change in our insurance benefit delivery system, however, went into effect in April of this year with the introduction of toll-free telephone service for policyholders and beneficiaries. With the installation of this new service we have been able to cut the average response time down from an average of 11 days for written inquiries to a matter of minutes for most of our phone inquiries. This new system takes advantage of both modern telecommunications and the technology of our redesigned insurance data processing system that provides our Insurance Specialists with immediate access to insurance records. Most callers are able to obtain information instantly and have specific account maintenance actions completed immediately. We are currently averaging approximately 2,403 calls per day. Through August 31, 1988, a total of 189,483 calls have been answered.

To help ensure the quality of the responses that we provide in our Veterans Insurance Phone Section (VIPS) we adopted a case management approach under which 96 percent of all calls are worked to completion by the specialist who initially answers the call rather than referring a call to another unit for any follow up action. In most cases (69%) we have been able to provide an immediate response to the caller. The remaining cases have required either a call back, a letter of confirmation, or some ADP input actions to adjust an account. By requiring the specialist to follow the case through to completion we believe that the service is more personalized.

To publicize the toll-free number we have enclosed a stuffer with all of our outgoing Mail (Exhibit F) and issued a nationwide news release. At this point the response has exceeded even our most optimistic projections. Although we experienced some minor technical problems with the telephone equipment as a result of the higher-than-expected call volume, we have resolved those technical problems with the acquisition of some additional equipment.

In taking this initiative we anticipate some cost savings as we replace written correspondence with telephone calls. We expect to achieve these savings by eliminating the administrative overhead required to process and respond to written inquiries. We are convinced, however, that the real benefit of this new service lies in dramatic improvements that we are making in servicing policyholders' requests for service. One critical quality indicator that we have been tracking to assess the impact of the toll-free number on our service is the volume of complaint correspondence that we receive. In July alone we experienced a 77 percent decline in the number of complaint letters received as compared to the same month last year.

In the area of cash management, we have maintained an aggressive program which is designed to minimize the float associated with the collection, processing and deposit of insurance premiums so that we can maximize the interest earnings on the trust funds. As part of this program we have taken several actions to increase the efficiency of the Insurance program's remittance processing operation and provide our policyholders with information about the various

premium payment options available to them. These payment options afford policyholders convenient, less costly alternatives to making monthly payments by check.

In July of this year we introduced a new premium payment option which we refer to as the "VA Matic" premium option, which is technically referred to in the banking industry as a preauthorized debit payment. Under this type of payment system, policyholders may elect to have their premium automatically deducted from their checking account each month through a wire transfer between their financial institution and the Federal Reserve Bank where we deposit all of our premium payments. The 1.8 million policyholders who currently make direct premium payments to the VA are being advised of this new option by a mailing which we expect to complete in December 1988. We estimate that 11 percent of the policyholders who receive the mailing will elect to pay their premiums in this manner.

In August of this year we completed another mailing to policyholders who are receiving monthly VA benefits. The mailing encouraged these policyholders to pay their premiums by a deduction from their VA compensation or pension award. Insureds who elect to pay their premiums in this manner will not only benefit by saving checking and postage costs, but are also protected from the inadvertent failure to make a premium payment on time. According to the latest statistics, approximately 22 percent of those who received the mailing have opted to pay their premiums by a deduction from their VA benefit payment.

We have also conducted an ongoing mailing (by means of a stuffer) to policyholders who make premium payments every month. The stuffer, which is inserted with the monthly premium notices, encourages these insureds to consider paying their insurance premiums on a quarterly, semiannual or annual basis. When premiums are paid on an other than monthly mode, a discount ranging from 2 1/2 to 3 1/2 percent is applied. As a result of this mailing, 129,657 policyholders have elected to change their monthly mode of payment to one of the three other-than-monthly payment modes. This will result in a reduction in remittance processing costs of $91,000 per year.

We also have several program enhancements that are in the planning stage. Two of these enhancements will require enabling legislation and have been included in the Agency's legislative initiatives submission this year. The first proposal would grant the Administrator the authority to pay interest on settlements from the date of death, or date of maturity for endowment policies, to the date of payment to the beneficiary or policyholder. Although claims in most cases are paid within 10 days, situations sometimes arise in which there are unavoidable delays. For example, as a result of appeals to the Board of Veterans Appeals, litigation in the courts, and other procedural reasons, the time which elapses until settlement is made can in some instances be significant. Such delays deny the beneficiaries and policyholders the use of the proceeds. Currently, settlement proceeds remain invested primarily in U.S. Treasury securities, and any interest earned thereon is distributed to the policyholders in the form of dividends. We believe that from an equity standpoint any interest earned on the proceeds from the date of death or date of maturity until settlement should be distributed to beneficiaries or policyholders. We currently

pay interest on claims from the date of death to the date of settlement for the Servicemen's Group Life Insurance and Veterans Group Life Insurance programs, but do not have the authority to pay interest in the USGLI, NSLI, VSLI, and VRI programs. The payment of interest on claims is a standard practice within the commercial life insurance industry.

Our second proposal would authorize an increase in the discount for paying premiums in advance for the various Government life insurance programs. The current discount applied to advance premium payments is 2 1/2 to 3 1/2 percent. All premiums, including those paid in advance, are primarily invested in U.S. Treasury securities which are producing an average yield of 9.64 percent. If enabling legislation is enacted, we would initially increase the discount rate to 7 1/2 percent, since our actuaries project that the average yield on the trust fund portfolio will remain at this rate or higher for at least the next eight years. Future adjustments to the discount rate would be made according to trust fund earnings. The current discount rates would be retained as guaranteed minimums. This proposal would benefit policyholders by reducing their premiums and would also provide savings to the Government since the number of premium payments processed by the VA is expected to decline as more policyholders elect to pay premiums quarterly, semiannually, or annually, rather than monthly, in order to take advantage of the discount.

Before I begin my discussion of the Insurance programs supervised by the Veterans Administration, I would like to first discuss the Veterans Mortgage Life Insurance (VMLI) program.

The VMLI program provides up to $40,000 in mortgage life insurance protection to disabled veterans who receive housing grants for specially adapted homes. Since the program's inception in 1971, VMLI was supervised by the VA and administered by Bankers Life Insurance Company of Nebraska. As of June 1988, there were 5,460 active VMLI accounts, representing $185 million in coverage. Legislation which allows the VA to directly administer the VMLI program was recently enacted as part of Public Law 100-322. Since September 1, 1988, we have been processing all VMLI cases at our St. Paul office. By directly administering VMLI we believe we can enhance the program's efficiency and reduce the costs of administering the program. The annual savings that are expected to be derived by transferring this function in-house are estimated to be in excess of $95,000.

The insurance programs supervised by the Veterans Administration are the Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) programs. Exhibits G and H provide statistical profiles of the SGLI and VGLI programs.

The SGLI program currently provides full-time insurance protection to 3,497,000 members of the uniformed services, the ready reserves, and the retired reserves, representing a total face amount of coverage of $174 billion. The insureds are covered by a group policy purchased by the VA from the Prudential Life Insurance Company of America. Prudential administers the program from the Office of Servicemen's Group Life Insurance (OSGLI) which is located in Newark, N.J.

The premiums collected under the SGLI program have been sufficient to cover all of the program's costs, except those costs that are attributable to the extra mortality due to the

hazards of military service. By law, the military services are required to pay these extra-hazard costs from their appropriations for active duty pay. No extra hazard payments, however, have been required from the uniformed services since 1975.

A small group of retired reservists are also covered under the SGLI program. Unlike the situation with active duty members and ready reservists, the premiums paid by this group have not been sufficient to cover the actual mortality costs and expenses of the program. As a result, it has been necessary to subsidize the program with an annual transfer of funds from the basic SGLI fund. For the policy year ending June 30, 1987, a total of $981,308 was transferred to cover the cost of insuring the 26,634 retired reservists in the program. Since May 1974, when retired reservists were first admitted to the SGLI program, a total of $56,309,992 has been transferred from the basic SGLI fund. To help distribute the cost of the SGLI program more equitably, the premium rates for this group were restructured effective April 1, 1988. As a result of this change our actuarial staff expects to be able to reduce the current subsidy by approximately one-half without adversely affecting participation in the program. In order to completely eliminate any subsidy, we would have to drastically raise the rates for the older age groups. Our decision to only partially reduce the subsidy was made after consulting with the Department of Defense. Exhibit I provides the new and old premium rates for the Retired Reservists.

When the monthly premium rates for the active duty, ready reserve, and National Guard personnel were reduced from 11.6¢ to 8.0¢ per $1,000 of coverage in July of 1984, the new premium rate was set below the "break even" rate in order to reduce the contingency reserve to an appropriate level. Because of high interest earnings on the program's investments, the reserves had risen above the required levels. At the time of the premium reduction, it was thought that gradual premium increases would be required as the reserves decreased. However, due to the excellent financial position of the SGLI program we will be able to continue to charge only 8¢ per $1,000 per month for at least another policy year, which runs through June 1989. At that time, a small increase in the rate will be required to keep the program on a self-supporting basis. We will be able to keep increases in the SGLI premium rate to a minimum because of the savings that have been made in other areas of the SGLI program.

Recently, legislation was enacted which, as of July 1, 1988, exempts both the SGLI and VGLI programs from State taxation. This will benefit both insured servicepersons and veterans by reducing the programs' expenses. Both programs are self-supporting in that the insureds pay all the costs of providing the insurance, including the administrative expenses and taxes. From the inception of the SGLI program in 1965 through policy year 1987, over $56.1 million has been paid to the States for premium taxes. In policy year 1987, the amount was approximately $4.3 million. Exemption of the SGLI/VGLI program from State taxes will reduce expenses and result in savings that will eventually be passed on to the insureds.

We have also taken several administrative actions which will allow us to improve the cash management of the SGLI program. In March 1988, the service departments began making their premium payments to the Philadelphia VAROIC. That office has established new procedures which enable us to deposit these

premium payments in the Federal Reserve Bank and transmit them to the primary insurer through a wire transfer on the same day they are received. By reducing the float time associated with the collection of these premium payments, we have been able to increase the interest earnings on the program's assets. We are also working with the uniformed services to further reduce the collection float by replacing the paper checks that they currently remit to us with an electronic funds transfer system.

The second program supervised by the VA is the Veterans Group Life Insurance (VGLI) program. VGLI is a program of post-separation insurance which provides for the conversion of SGLI to a five-year nonrenewable term policy. We currently insure 268,000 veterans and members of the Individual Ready Reserve and Inactive National Guard for $11.3 billion in insurance coverage. Like the Retired Reservists portion of the SGLI program, the VGLI program requires a transfer of funds each year from the basic SGLI fund because the premiums collected are not sufficient to cover the mortality and expense costs. A transfer of $13 million was required for the policy year ending June 30, 1987, bringing the cumulative transfer since the program's inception in August 1974 to $143 million.

Over the past several years, the VA and the OSGLI have developed and implemented several initiatives which have improved the participation rate for the VGLI program, which had been declining in recent years.

One of our current initiatives involves a new procedure which allows servicepersons to apply for VGLI coverage at the time of separation, rather than waiting for an application to be mailed to them. The test program, which was conducted at the Fort Dix Separation Center, resulted in a participation rate of approximately 55 percent, which is well above the current VGLI participation rate of 30 percent. Individuals who elect to pay a year's premium in advance receive the first year of coverage at a discounted rate. This procedure is being implemented nationwide at major Army separation centers this month. A similar program for the Air Force is planned for later this year and implementation for the other services is expected to take place in 1989.

We have also developed additional premium payment options which will provide convenient payment alternatives to those insured under the VGLI program and at the same time reduce the program's operating expenses. Retirees from all branches of the service can now have their VGLI premiums automatically deducted from their service retirement pay. This option virtually eliminates the possibility of a policy lapsing for nonpayment of premiums. A similar option which will allow insureds to deduct their VGLI premiums from VA compensation or pension payments will be implemented by December 1988.

Another payment option that has been available since March 1, 1988, allows VGLI policyholders to pay premiums on an annual basis. If an insured selects the annual mode of payment, a one month discount is provided.

As a result of these initiatives, the VGLI participation rate increased from 20 and 24 percent in policy years 1985 and 1986 to 29 and 30 percent in policy years 1987 and 1988.

Mr. Chairman, this concludes my prepared remarks on the status of the VA's insurance programs. We will be pleased to answer any questions you may have and provide any additional information that you may require on any of these programs.

FACE AMOUNT OF COVERAGE
VA Versus Commercial Insurers
(in Billions)

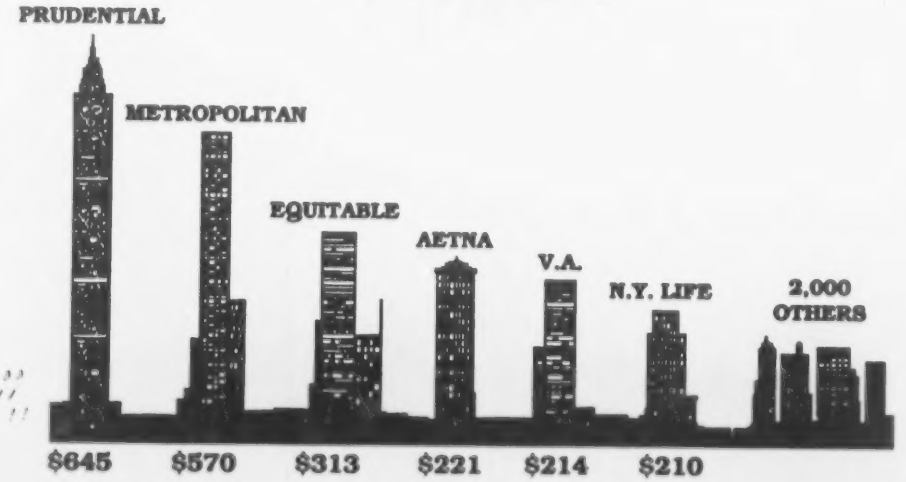


EXHIBIT A

INSURANCE TRUST FUND INVESTMENTS

June 30, 1988

U.S. Government Securities

Fund	NSLI (V)	NSGLI (K)	VSLI (RS/W)	VRI (J,JR,JS)
General Authority	38 U.S.C. 720(b)	38 U.S.C. 755(b)	38 U.S.C. 723(c)	38 U.S.C. 725(d)
Formula for Obtaining the Yield on U.S. Security Investments	The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years. (Minus ¼% for funds invested prior to January 1, 1985). Calculated as of the end of the preceding month.	The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years. (Minus ¼% for funds invested prior to January 1, 1985). Calculated as of the end of the preceding month.	The average rate of interest (coupon rate) borne by all marketable interest-bearing obligations of the U.S., forming a part of the public debt that are not due or callable until after at least 5 years from the date of original issue.	The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 4 years. Calculated as of the end of the preceding month.
Portfolio Arrangement	All new and roll-over investments are spread over periods of 1 to 13 years so that there are equal amounts of maturities each June 30 for all funds except "K." Because of cash flow requirements, the investments being made in the "K" fund are all with maturity dates of the next June 30th.			
Formula Established By	1985 Agreement between the VA and Treasury	1985 Agreement between the VA and Treasury	PL 85-894	PL 88-664
Amount Invested in U.S. Government Securities	$10,579,494,000	$207,942,000	$1,174,955,000	$493,874,000
Average Rate Of Return on all Investments in U.S. Securities	9.607%	7.496%	9.719%	10.062%
Interest Rate on New Investments in U.S. Securities (Apr., May, June)	9.125%	9.125%	10.000%	9.250%
		Policy Loans		
Amount Invested in Policy Loans	$886,211,398	$19,334,667	$71,717,637	$25,841,917
Percentage of Trust Fund Investments in Policy Loans	7.729%	8.507%	5.753%	4.972%
Average Rate of Return on Policy Loans	4.865%	4.334%	5.671%	5.922%
		Total Investments		
Amount	$11,465,705,398	$227,276,667	$1,246,672,637	$519,715,917
Rate of Return on all Investments (Loans and U.S. Securities	9.240%	7.227%	9.486%	9.856%

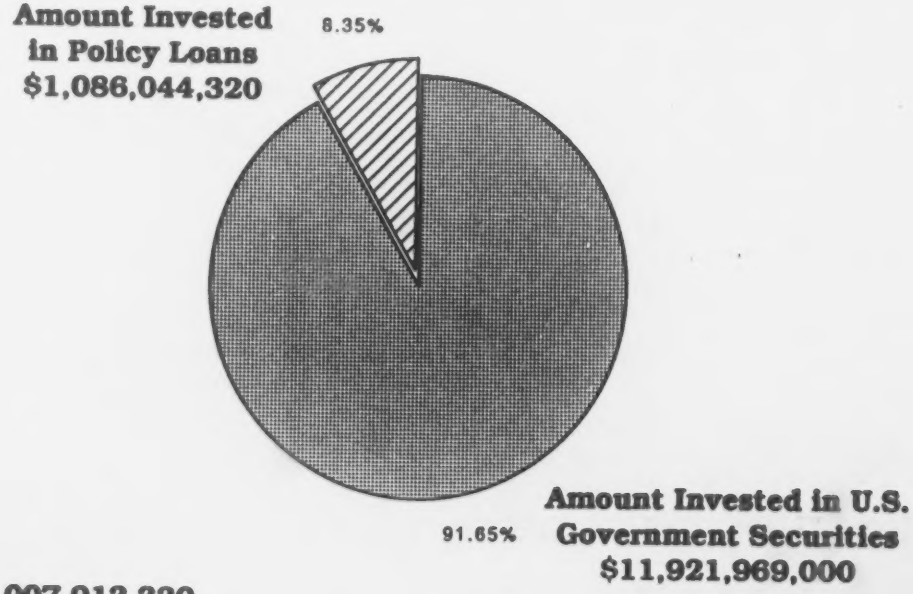
DR/MB 8/12/87

EXHIBIT B

Insurance Trust Fund Investments

as of September 30, 1988

U.S. Government Securities



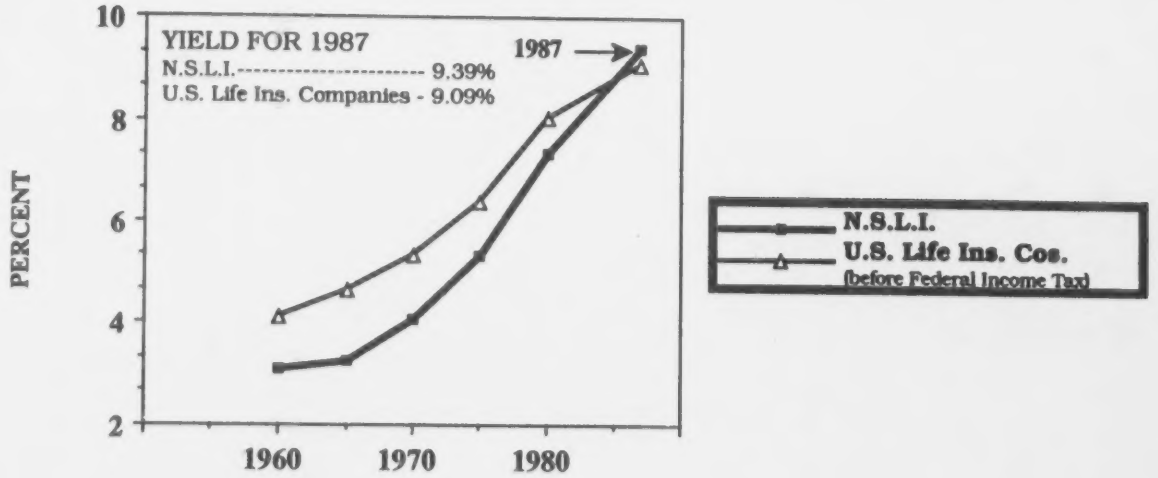
Total $13,007,913,320

VAROIC - September 1988

EXHIBIT C

YIELD ON INVESTMENTS

NSLI vs. Commercial Life Insurance Companies



VAROfC Philadelphia, PA - September 1988

EXHIBIT D

UNITED STATES GOVERNMENT LIFE INSURANCE
(Policy Numbers Prefixed with "K")

The War Risk Insurance Act of 1917 authorized the issuance of yearly renewable term policies to service personnel in amounts ranging from $1,000 to $10,000. These policies were issued from October 6, 1917, until June 7, 1924, when authority for their issuance was rescinded by act of Congress. During that period, approximately 4.4 million policies were issued for a face amount of over $40 billion of insurance. The final expiration date of any yearly renewable term policy not converted to a permanent plan or a five-year convertible term policy was July 2, 1927, unless the policyholder became disabled prior to that date.

The USGLI program was established in 1919 to handle the direct issuance of new permanent plan policies and conversions from War Risk term insurance. Very few new USGLI policies were actually issued until after June 7, 1924, however, when the issuance of War Risk term policies was terminated. New insurance could only be issued upon entry into the services until May 29, 1928, when the law was amended to permit anyone, in or out of service, who served honorably during World War I, to apply for new insurance at any time. The USGLI program was closed to new issues on October 8, 1940, except for World War I veterans who could apply for such coverage until April 25, 1951.

A total of approximately 1.15 million USGLI policies were issued, of which about 600,000 were in force in 1940 when the program closed to new issues for all but World War I veterans. The amount of insurance in force is currently decreasing at the rate of approximately 9.0% per year (9.4 in 1987). As of December 31, 1987, only 51,504 of the original 1.15 million USGLI policies issued still remain in force.

Program Statistics:

Opening Date	September 29, 1919
Closing Date (Non-World War I Veterans)	October 8, 1940
Closing Date (World War I Veterans)	April 24, 1951
Number of Policies Issued (new issues and conversions from War Risk Term Insurance)	1,153,000
Face Value of Policies Issued	$4,857,600,000
Average Amount Per Policy Issued	$4,213
Number of Five-Year Term Policies in Force	330
Number of Permanent Plan Policies in Force	51,174
Face Value of Policies in Force	$194,092,172

EXHIBIT E-1

Average Amount Per Policy in Force	$3,768
Average Attained Age in 1987	78.8 years
Average Annual Death Rate	101.0 per 1,000
Total Investments of USGLI Fund	$239,273,290
Average Rate of Return on All Investments (As of December 31, 1987)	7.21%
Total Disbursements in 1987	$45,844,199

EXHIBIT E-1

NATIONAL SERVICE LIFE INSURANCE
(Policy Numbers Prefixed with "V," "H," "N" or "AN")

The imminence of large scale military inductions prior to World War II resulted in the enactment of legislation on October 8, 1940, which created a new insurance program known as National Service Life Insurance (NSLI). This legislation also closed the United States Government Life Insurance (USGLI) program to new issues for all but World War I veterans. The NSLI program was established in order to protect the USGLI fund surplus from depletion due to wartime claims and to permit updated total disability and beneficiary selection provisions. Incoming service personnel were eligible to apply for the issuance of five-year, non-renewable term policies in sums ranging from $1,000 to $10,000, which were convertible to permanent insurance after one year.

The end of World War II brought several changes similar to those which occurred after World War I. The Insurance Act of 1946 provided the following:

a. Removal of restrictions on beneficiary selection

b. Expanded optional settlements, including lump sum

c. An optional total disability income provision

d. Additional permanent plans available for conversion from term insurance

e. Availability of insurance to World War II veterans who were no longer in service

f. Availability of insurance to World War II veterans lacking coverage due to a service-connected disability less than total in degree

Subsequent legislation provided that permanent plan insurance could be issued without preexisting term coverage and that the term policies in force could be indefinitely renewed. The Insurance Act of 1951 closed both the NSLI and USGLI programs to new issues on April 24, 1951.

Over 22 million policies were issued under the NSLI program, of which 2,891,454 remain in force, for a total amount of $18,082,439,174 of insurance coverage.

Included in the 2,891,454 total NSLI accounts are 2,767 "H" accounts. This insurance was issued between August 1, 1946, and December 31, 1949, to certain veterans with service-incurred disabilities. This insurance has the same premium rates and policy provisions as "V" insurance except that it is nonparticipating (i.e., the policyholders do not receive dividends).

Program Statistics:

Opening Date	October 8, 1940
Closing Date	April 24, 1951
Number of Policies Issued	22,177,000
Face Value of Policies Issued	$173,765,000,000
Average Amount Per Policy Issued	$7,835
Number of Five-Year Term Policies in Force	837,352
Number of Permanent Plan Policies in Force	2,051,335
Average Amount Per Policy in Force	$6,255
Average Attained Age in 1987	64.6 years
Average Annual Death Rate	21.9 per 1,000
Total Investments of NSLI Fund	$11,357,655,544
Average Rate of Return on All Investments (As of December 31, 1987)	9.22%
Total Disbursements in 1987	$1,634,422,517

EXHIBIT E-2

VETERANS' SPECIAL LIFE INSURANCE
(Policy Numbers Prefixed with "RS" or "W")

In order to meet the insurance needs of the Korean conflict, the VSLI program was established in 1951. It provided for the issuance of Veterans Special Life Insurance upon termination of active duty to veterans who had been covered by the Servicemen's Indemnity Act.

Insurance under the VSLI program was available, without medical examination, to veterans separated from service on or after April 25, 1951, and before January 1, 1957. Application had to be made within 120 days after separation, and insurance was available in amounts up to $10,000, less any existing NSLI or USGLI. Approximately 800,000 policies were issued, of which 338,537 remain in force for a total amount of $2,839,773,362 insurance coverage.

Program Statistics:

Opening Date	April 25, 1951
Closing Date	December 31, 1956
Number of Policies Issued	803,111
Face Value of Policies Issued	$7,349,178,500
Average Amount Per Policy Issued	$9,151
Number of Five-Year Level Premium Term Policies in Force (RS)	30,458
Number of Five-Year Limited Convertible Term Policies in Force (W)	31,312
Number of Permanent Plan Policies in Force	276,767
Face Value of Policies in Force	$2,839,773,362
Average Amount Per Policy in Force	$8,388
Average Attained Age in 1987	55.5 years
Average Annual Death Rate	8.1 per 1,000
Total Investments of VSLI Fund	$1,212,467,755
Average Rate of Return on All Investments (As of December 31, 1987)	9.42%
Total Disbursements in 1987	$138,923,299

EXHIBIT E-3

SERVICE-DISABLED VETERANS' INSURANCE
(Policy Numbers Prefixed with "RH" or "ARH")

The Insurance Act of 1951 authorized the issuance of new insurance policies ("RH" prefix) to veterans separated from service on or after April 25, 1951, who are suffering from a service-connected disability but who are otherwise insurable. Coverage is available in amounts from $1,000 to $10,000 and, in general, must be applied for within one year from the date of the notice to the insured that he or she has been rated disabled by the Veterans Administration. Although information on SDVI is periodically released by our information services, eligible veterans are also notified concerning possible entitlement. This is the only program of Government life insurance which is still open to new issues.

All plans of insurance are available unless the veteran is totally disabled at the time of application, in which case the endowment plans are not available.

Legislation was enacted in 1959 to protect those veterans who become incompetent from service-connected disability while eligible to apply for SDVI, but who die before application was filed. Such veterans are deemed to have applied for $10,000 of insurance (less any existing Government life insurance), which is issued posthumously, and is payable to a preferred class of the insured's relatives in monthly installments. Since 1959, a total of $6,263,308 in gratuitous SDVI beneficiary payments have been made. The conditions for eligibility and payment of "ARH" insurance are discussed in greater detail on page 35 of this booklet.

Since the SDVI program's inception in 1951, 304,429 policies have been issued, for a total of $2,786,556,900 of insurance coverage. We are currently issuing approximately 3,500 policies per year.

Program Statistics ("RH"):

Opening Date	April 25, 1951
Closing Date	Open
Number of Policies Issued	304,429
Face Value of Policies Issued	$2,786,556,900
Average Amount Per Policy Issued	$9,153
Number of Five-Year Term Policies in Force	80,821
Number of Permanent Plan Policies in Force	98,341
Face Value of Policies in Force	$1,624,352,315
Average Amount Per Policy in Force	$9,066
Average Attained Age in 1987	45.8 years
Average Annual Death Rate	13.1 per 1,000
Total Disbursements in 1987	$37,952,070
Percentage of Policies on Premium Waiver	23.6%

EXHIBIT E-4

VETERANS' REOPENED INSURANCE
(Policy Numbers Prefixed with "J," "JR" and "JS")

In 1964, Congress enacted legislation which provided for a limited reopening of NSLI for a period of one year beginning May 1, 1965, to veterans (not on active duty at date of policy issue) who met the following conditions:

1. They must have been eligible to obtain NSLI between October 8, 1940, and January 1, 1957, and

2. They must have had either:

   a. A service-connected disability which was compensable, or would have been compensable if it were rated 10 percent or more in degree, without any serious nonservice-connected disability which would have disqualified them for standard insurance (prefixed with "J" or "JR"), or

   b. A nonservice-connected disability, or combination of service-connected and nonservice-connected disabilities, so serious that they could not obtain commercial insurance at the highest rates (prefixed with "JS").

All plans of insurance available under the NSLI program, except term insurance, are available under the Veterans' Reopened Insurance (VRI) program. Approximately 227,900 policies were issued under this program, of which 129,277 remain in force for a total of $828,450,238 of coverage.

Program Statistics:

Opening Date	May 1, 1965
Closing Date	May 2, 1966
Number of Policies Issued	227,882
Face Value of Policies Issued	$1,601,504,500
Average Amount Per Policy Issued	$7,028
Number of Policies in Force	129,277
Average Amount Per Policy in Force	$6,408
Face Value of Policies in Force	$828,450,238
Average Attained Age in 1987	64.6
Average Annual Death Rate	21.8 per 1,000
Total Investments of VRI Fund	$523,514,916
Average Rate of Return on All Investments (As of December 31, 1987)	9.84%
Total Disbursements in 1987	$71,314,005

EXHIBIT E-5

VETERANS' MORTGAGE LIFE INSURANCE

Veterans' Mortgage Life Insurance (VMLI) is designed to provide financial protection to cover an eligible veteran's outstanding home mortgage in the event of his or her death. The insurance was provided under a group policy issued to the Administrator of Veterans Affairs. The Office of Veterans' Mortgage Life Insurance, Lincoln, Nebraska was established to administer the mortgage protection program under the supervision of the Veterans Administration.

Effective September 1, 1988, as a result of Public Law 100-322, the group policy was terminated and all administrative functions of the VMLI program are now handled by the VA.

The insurance is restricted to those disabled veterans who have received grants for the purchase of specially-adapted housing under the authority of title 38, United States Code, chapter 21. Such grants are available to those veterans who are entitled to compensation for service-connected permanent and total disability due to one or more of the following conditions:

1. Loss, or loss of use, of both legs, which precludes locomotion without the aid of braces, crutches, canes, or a wheelchair; or

2. Blindness in both eyes, having only light perception, plus the loss, or loss of use, of one leg; or

3. Loss, or loss of use, of one leg together with residuals of organic disease or injury which so affect the functions of balance or propulsion as to preclude locomotion without resort to a wheelchair.

4. Loss, or loss of use, of one lower extremity together with the loss, or loss of use, of one upper extremity, which so affect functions of balance or propulsion as to preclude, or render medically inadvisable, locomotion without specific aids.

The grant is for the purpose of acquiring adaptions needed for the eligible veteran's residence because of his or her disabilities.

The grant is conditioned upon residence in a home owned by the veteran or family member.

The maximum amount of VMLI allowed an eligible veteran may not exceed $40,000. The maximum amount is reduced at the same time the principal of the mortgage loan is reduced below $40,000.

EXHIBIT E-6

The insurance is not available to veterans who have reached their 70th birthday.

The insurance is payable at the death of the veteran only to the holder of the mortgage loan. No insurance is payable if the mortgage is paid off prior to the veteran's death.

A veteran is automatically insured upon receipt of a grant and the securing of a mortgage on the property.

The premiums for this protection are based only on the mortality costs of insuring non-disabled individuals and should, therefore, be lower than any commercial insurance premiums for similar coverage.

The Government bears the administrative costs of the insurance and all costs for claims in excess of the premiums paid by the insured veteran.

The following statistical information is of interest:

Program Issue Date	August 11, 1965, to present
Number of Members Covered	5,519
Average Face Amount per Member	$33,138
Total Face Amount in Force	$182,890,901
Average Annual Death Rate	38.9 per 1,000

EXHIBIT E-6

Toll-Free Service for Insurance Inquiries

You can now call us toll-free if you have questions or need any service performed on your VA insurance policy. Please call **1-800-422-8079** to take advantage of this service. For questions you have concerning other VA programs, you should consult the local telephone directory for the toll-free number of the VA Regional Office or Center nearest to you.

To help us to guarantee courteous responses and accurate information, VA Supervisors occasionally monitor these telephone calls. No record is kept of any information obtained as a result of this supervisory monitoring.

EXHIBIT F

SERVICEMEN'S GROUP LIFE INSURANCE

The Servicemen's Group Life Insurance (SGLI) program provides $50,000 life insurance coverage for individuals currently in the military service and for certain specified periods after separation or release from periods of reserve duty.

The program is supervised by the Veterans Administration but is administered by the Office of Servicemen's Group Life Insurance (OSGLI) under the terms as specified in a group insurance contract.

Full-time coverage is available for commissioned, warrant and enlisted members of the Army, Navy, Air Force, Marine Corps and Coast Guard; and commissioned members of the National Oceanic and Atmospheric Administration and the Public Health Service. Cadets or midshipmen of the four United States Service Academies are also provided full-time coverage.

Full-time coverage is also available to Ready Reservists who are scheduled to perform at least 12 periods of inactive training per year. Persons assigned to, or who upon application would be eligible for assignment to the Retired Reserve, and have not yet received their retirement pay and have not reached 61 years of age, are also eligible for full-time coverage.

Part-time coverage is provided to eligible members of the Reserves who do not qualify for full-time coverage. Part-time coverage is in effect while such members are performing periods of active duty training.

At the present time, there are about 3.6 million members covered by the insurance.

Coverage is automatic (with the exception of Retired Reservists who must apply for coverage) upon entry into a period of active duty or reserve status. If the member does not wish the coverage or desires coverage in an amount less than $50,000, he or she must make such an election in writing. Lesser coverage is available only in multiples of $10,000.

Full-time coverage is in effect throughout a member's period of active duty or reserve status and for a 120-day free period following separation or release from active duty or reserve status. In addition, members who are totally disabled at the time of separation may also apply for up to a one-year period of free coverage.

Retired Reservists' coverage ceases when a member receives his or her first increment of retired pay, attains age 61 or fails to pay premiums.

Part-time coverage is in effect only on the days of active duty or active duty for training and for periods of travel to and from such duty. Coverage may be extended for a free period of 120 days if a member under part-time coverage incurs a disability or aggravates a preexisting disability while performing a period of duty.

EXHIBIT G

The monthly premium rate for active duty members and Ready Reservists is $4.00 for $50,000 or 80 cents per $10,000 insurance if lesser amounts of insurance are elected. The premium rate for part-time coverage is $5.00 per year for $50,000 coverage.

Monthly premium rates for Retired Reservists as of April 1, 1988 are as follows:

AGE	$50,000	$40,000	$30,000	$20,000	$10,000
Thru 44	$17.00	$13.60	$10.20	$ 6.80	$ 3.40
45 thru 49	21.00	16.80	12.60	8.40	4.20
50 thru 54	28.00	22.40	16.80	11.20	5.60
55 + over	36.00	28.80	21.60	14.40	7.20

The proceeds of this insurance can be paid in a lump sum or over a 36-month period, depending on which option the insured selected. Any beneficiary can be named, but in the event none is selected, the insurance devolves by law in the following order: 1) spouse, or 2) children, or 3) parents, or 4) executor of estate, or 5) other next of kin.

The following statistical information is of interest:

Program Issue Date	September 29, 1965, to present for Active Duty Members May 24, 1974, to present for Ready and Retired Reserve Members
Number of Members Covered	3,553,000
Average Face Amount per Member	$49,735
Total Face Amount in Force	$176,709,685,000
Average Attained Age	28.6 years
Average Annual Death Rate	1.10 per year

EXHIBIT G

VETERANS' GROUP LIFE INSURANCE

Veterans' Group Life Insurance (VGLI) is a program of post-separation insurance which provides for the conversion of Servicemen's Group Life Insurance (SGLI) to a five-year term policy at reasonable rates. This program, like SGLI, is supervised by the Veterans Administration but administered by the Office of Servicemen's Group Life Insurance (OSGLI).

At the end of the term period, a member has the right to convert the insurance to an individual commercial life insurance policy with any one of over 300 participating commercial insurance companies.

This insurance is not available to Retired Reservists. Eligible Retired Reservists who do not desire continued SGLI coverage may, however, elect to exercise the conversion privilege if they do so within a 120-day period following separation or release from reserve status.

Persons who are eligible to be covered are members being released from active duty for periods not specified as less than 31 days and Reservists who are performing training periods of less than 31 days who suffer an injury or disability which renders them uninsurable at standard premium rates.

Members of the Individual Ready Reserve (IRR) and Inactive National Guard (ING) are also eligible for VGLI coverage as of January 1, 1986. Application must be made to the OSGLI. At the end of the five-year term, members of the IRR or ING can renew their VGLI for an additional five-year term, so long as they remain in the IRR or ING.

VGLI is issued in amounts of $10,000, $20,000, $30,000, $40,000 or $50,000, but not for more than the amount of SGLI the member had in force at the time of separation from active duty.

Effective for individuals separated from active duty or assignment to the IRR/ING on or after July 1, 1986, VGLI premiums have been restructured. The premiums for each age group have been set at a level which will cover the mortality expenses and administrative costs for that particular group.

These premium rates are as follows:

AGE	$50,000	$40,000	$30,000	$20,000	$10,000
Thru 29	$ 6.00	$ 4.80	$ 3.60	$ 2.40	$ 1.20
30 thru 34	10.00	8.00	6.00	4.00	2.00
35 thru 44	17.00	13.60	10.20	6.80	3.40
45 thru 49	21.00	16.80	12.60	8.40	4.20
50 thru 59	26.00	20.80	15.60	10.40	5.20
60 + Over	37.50	30.00	22.50	16.00	7.50

EXHIBIT H

For individuals separated from active duty or assignment to IRR/ING prior to July 1, 1986, the following rates apply:

AGE	$50,000	$40,000	$30,000	$20,000	$10,000
Thru 34	$ 8.50	$ 6.80	$ 5.10	$ 3.40	$ 1.70
35 + Over	17.00	13.60	10.20	6.80	3.40

In order to alert members to the availability of this coverage, an application and explanatory package is mailed to eligible members within 60 days after separation and again shortly before the end of the 16 month application period.

The following statistical information is of interest:

Program Issue Date	August 1, 1974, to present
Number of Members Covered	253,569
Average Face Amount per Member	$40,605
Total Face Amount in Force	$10,296,055,000
Average Attained Age	32.9 years
Average Annual Death Rate	2.83 per 1,000

EXHIBIT H

SERVICEMEN'S GROUP LIFE INSURANCE
Retired Reserve Premium Rates

Old Rates:

	MONTHLY PREMIUM				
AGE	$50,000	$40,000	$30,000	$20,000	$10,000
Through 39	$15.00	$12.00	$9.00	$6.00	$3.00
40 through 49	$20.00	$16.00	$12.00	$8.00	$4.00
50 and over	$25.00	$20.00	$15.00	$10.00	$5.00

New Rates: (Effective April 1, 1988)

	MONTHLY PREMIUM				
AGE	$50,000	$40,000	$30,000	$20,000	$10,000
Through 44	$17.00	$13.60	$10.20	$6.80	$3.40
45-49	$21.00	$16.80	$12.60	$8.40	$4.20
50-54	$28.00	$22.40	$16.80	$11.20	$5.60
55 and over	$36.00	$28.80	$21.60	$14.40	$7.20

EXHIBIT I

THE RETIRED OFFICERS ASSOCIATION

201 North Washington Street
Alexandria, Virginia 22314-2529
(703) 549-2311

STATEMENT OF

THE RETIRED OFFICERS ASSOCIATION

before the

Subcommittee on Compensation, Pension and Insurance

of the

HOUSE COMMITTEE ON VETERANS' AFFAIRS

Presented by

Commander John F. Wanamaker, USN Retired

Deputy Director of Legislative Affairs

The Retired Officers Association (TROA)

September 14, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Commander John F. Wanamaker, USN Retired, Deputy Director of Legislative Affairs for the The Retired Officers Association (TROA) which has its national headquarters at 201 North Washington Street, Alexandria, Virginia. Our association has a membership of more than 357,000 active duty, retired and reserve officers of the seven uniformed services. Included in our membership are approximately 50,000 auxiliary members who are survivors of former members.

My purpose today is to present the views and opinions of the members of the association relating to several insurance programs administered by the Veterans Administration.

Servicemen's Group Life Insurance (SGLI)

The SGLI program is the current life insurance program providing coverage for the active duty and Reserve forces and administered by the Veteran's Administration. The Congress, by the enactment of P.L. 99-166 increased the maximum SGLI insurance coverage to $50,000. The insurance needs of military personnel were only partially met by that action. A Congressionally mandated review of military compensation, conducted by the Fifth Quadrennial Review of Military Compensation (5QRMC) in December 1983 recommended that in addition to increasing the coverage to $50,000 that an additional coverage of $50,000 on a voluntary basis be

provided by the SGLI program. In the interest of conserving time, I'm providing the findings and recommendation of the 5th QRMC as they pertained to the SGLI program. (VOL. II, Page VII-8 5th QRMC of December 1983)

FINDINGS

A. While the SGLI program is accomplishing its intended purpose, i.e., providing to servicemembers life insurance protection during peace and war, the cost is currently higher than comparable private-sector plans which have much lower numbers of subscribers.

B. Although SGLI has kept pace with inflation, it does not provide basic level coverage comparable to that which can be purchased from private-sector insurance companies.

C. The Government has a proper obligation to encourage and facilitate (e.g., through a Government-sponsored program) the purchase by servicemembers of sufficient insurance protection to reduce the possibility that survivors will suffer undue financial hardship.

D. Comprehensive estate planning is the responsibility of the servicemember, who should take the initiative to purchase any life insurance he or she feels is required for individual protection above the basic coverage level represented by

SGLI.

RECOMMENDATIONS

A. Increase the basic level of SGLI coverage to $50,000 and concurrently offer additional coverage of $50,000 on a voluntary (by written application) basis. such optional coverage would not be linked to, or subsidized by, the basic, flat-rate $50,000 program.

B. Establish a DoD task force in conjunction with the Veterans Administration to examine current SGLI rates, which appear to be higher than comparable commercial insurance, and to determine what rates should be charged for the recommended basic and optional coverage.

C. The OSD should formally review SGLI coverage for adequacy and premium rates for appropriateness at least once every four years.

Mr. Chairman, while our association members endorse the findings and recommendations of the 5QRMC I would call to the committee's attention the last recommendation which is to review the SGLI coverage for adequacy and premium rates for appropriateness at least once every four years. The last major change to the program was in 1985, and since there is established by Section 774 Title 38 U.S.C. the Advisory Council on Servicemen's Group Life

Insurance which meets each year, I would urge the committee to require that panel to undertake the review suggested by the 5QRMC and report to the Congress its findings and recommendations. I would specifically hope that the panel would compare the premium costs with private insurers and make an overall comparison with the insurance coverage provided civilian employees of the federal government. The insurance requirements of our servicemembers are equally important. Career servicemembers who rely on the SGLI program to provide their insurance needs must find new insurance later in life when the premiums to enter such programs are considerably higher than they would have been had they participated at an earlier age. It is strongly urged that this issue of long-term (lifetime) coverage be addressed by providing coverage for those careerists who remain on active duty for 20 or more years which can then be extended at low group rates into retirement until at least age 65. At that point there could be options similar to the civil service program to gradually reduce the coverage, as insurance needs diminish.

It is hoped that the recommended report be submitted to the Congress (not later than February 1, 1989) so that any needed legislative action can be taken up early in the next Congress.

Mr. Chairman, the SGLI insurance program which in most instances provides a lump sum payment to a servicemember's survivors upon his death, cannot be considered in total isolation, one might consider the $50,000 maximum SGLI insurance coverage as a lot of

money. But it's questionable if that amount would be sufficient to pay for the future college education of a single child. Although these hearings today are centered on insurance aspects of survivors benefits, the inadequate income levels provided survivors by the Dependency and Indemnity Compensation (DIC) program also must be taken into consideration. The DIC annuities for surviving spouses of all enlisted grades is currently $707 or less per month. In many cases that amount is insufficient to provide the rent or mortgage payments. Often a large proportion of the initial insurance payment is expended to make a transition to a reduced family income status. In asking for a complete review of the insurance program, I believe it necessary for that review to include the adequacy of the DIC program as well.

I call the committee's attention to the first of the findings of the 5th QRMC. In brief, the findings were that the costs for SGLI was higher than comparable private-sector plans. Under the circumstances, I would urge the committee to have an outside evaluation done by a disinterested agency such as the Congressional Research Service or the General Accounting Office to determine if it might be more beneficial to both the insured and the government to bring the SGLI program in-house or by introducing greater competition into the contracting process. The highly successful administration of the USGLI and the NSLI programs can attest to the ability of the Veterans Administration to administer such programs. The often expressed reason that the Congress wants the government to get out of the insurance business

is not sufficient. The government is in the insurance business whether it wants to or not. The final concern should be that the program best meets the needs of the insured, at minimum costs to the veterans and the Government. If the current SGLI program is not providing adequate insurance coverage at the least cost for both the insured and the government, then it's time to take another look at alternatives.

The National Service Life Insurance Program (NSLI)

With the enactment of P.L. 100-322, the Veterans Administrator was provided authority to make adjustments to the monthly installments payable to beneficiaries of the NSLI program, without regard to Section 702 of Title 38 U.S.C. Section 702 is quoted as follows:

> "Premium rates for insurance shall be the set rates based upon the American Experience Table of Maturity and interest at the rate of 3 per centum per annum. All cash, loan, paid-up, and extended values, and all other calculations in connection with insurance, shall be based upon said American Experience Table of Maturity and interest at the rate of 3 per centum per annum."

Mr. Chairman, the NSLI program was established in 1940 nearly forty eight years ago and the criteria used to establish the rates has proven to be unrealistically conservative. On April 24, 1986,

the Administration approved a proposal to increase the interest basis to determine the NSLI paid- up-additions from 3.5 to 4.5 percent. A more realistic and fair increase would be to increase the basis for computing the paid-up additions by the actual annual interest rate received on the Reserve fund for the preceding year. If the administrator should feel he would require some additional safety margin than it could be that experienced interest rate less 1 or 2 percentage points. This provision of the NSLI program which enables a policy holder to elect paid up additions is especially beneficial to those who may be disabled, as this may be the only avenue open to them to obtain additional insurance coverage.

It is recommended that the committee consider revising the criteria established in Section 702 Title 38 U.S.C. to reflect the current interest expectations and updated mortality experiences. The cash, loan, paid-up, and extended values and all other calculations in connection with insurance, should be based on these revised criteria.

In closing, I question the policy to continue to build up the Reserve fund. The administration has estimated that the NSLI program during FY 1989 will experience a drop in the amount of insurance-in-force by over 300 million dollars, while at the same time increasing the Reserve by over $220 million. During FY 1989, the interest and premiums earned revenue which is estimated to be nearly three times the amount necessary to pay death claims for

that year. One would think it only proper to reduce the Reserve at the same rate as the reduction in insurance-in-force so the fund would be depleted at the same time the last policy is paid.

Thank you Mr. Chairman, for allowing our organization the opportunity to provide its views on these important issues, relating to the various VA insurance programs. I will attempt to answer any questions that the committee members may have.

Thank you.

STATEMENT OF
JOHN C. BOLLINGER
ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
VETERANS ADMINISTRATION INSURANCE PROGRAMS
SEPTEMBER 13, 1988

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America (PVA), I wish to thank you for this opportunity to present the views and concerns of PVA regarding Veterans Administration insurance programs. For many of PVA's members, VA life insurance and mortgage protection represent the single source of insurance coverage available to individuals otherwise ineligible for commercial coverage due to severe and total disabilities. This Subcommittee's concern for the welfare of the VA's insurance programs is, therefore, especially appreciated by the members of PVA. The efficient operation of these programs and the potential embellishment of existing policy provisions are of vital importance to those of us who hold VA policies and to our beneficiaries.

Our testimony today will be limited to two of the insurance programs administered by the VA which directly affect PVA's members. They are Service Disabled Veterans' Insurance (RH) for veterans with service-connected disabilities and Veterans' Mortgage Life Insurance for those veterans who have received a specially adapted housing grant.

Service Disabled Veterans' Insurance (SDVI)
RH Insurance

RH insurance is a special type of VA life insurance which is available to veterans with service-connected disabilities. Any service-connected veteran released from active duty, on or after April 25, 1951, under other than dishonorable conditions is eligible to apply for this insurance. Good health, except for the service-connected disability, is a requirement. RH insurance is issued in amounts from $1,000 to $10,000. Because such insurance does not pay an annual dividend like many other VA policies, RH policy holders are unable to purchase paid-up additions to increase the face value of their policies. The maximum face value, in all cases, is $10,000.

PVA's concern is with the low amount of insurance coverage provided under this type of policy. It must be kept in mind that it is the same service-connected disability that hinders the veteran from purchasing insurance from commercial companies at a reasonable premium.
Commercial insurance companies estimate the appropriate amount of insurance protection required by an individual by using the factors of age, life expectancy, number of dependents, and annual earning capacity. By using these factors, the dollar value of insurance necessary to provide for adequate protection is derived. The maximum amount of SDVI, $10,000, is simply not sufficient to meet today's obligations when compared to the recommendation of private insurers.

For a spinal cord injured veteran, using the criteria established by private insurers, adequate coverage should be over $150,000. This is based on a veteran aged 44, married with two children, average life expectancy of 70, with a monthly compensation of approximately $2200. The appropriate amount of coverage is developed by using the insurance industry's formula of taking the annual income and multiplying by a factor of six. For the above veteran,

using this formula, the total family protection the veteran should carry is $158,400.

Primary Goal to Obtain Complete Coverage

It is apparent that a policy (SDVI) designed over 30 years ago is inadequate today. It has not been increased to offset rising economic factors, and it does not permit the catastrophically disabled veteran the opportunity of providing long-term financial security. PVA believes that raising the SDVI RH insurance from the maximum of $10,000 to $50,000 would represent a proper increase for basic RH coverage. In addition, we believe a one-year open enrollment period to allow eligible veterans to purchase additional amounts of RH insurance in increments of $10,000, up to an additional $100,000, would give policy holders the opportunity to secure the full coverage recommended by private insurers. $50,000 insurance offered by the VA, coupled with the option of purchasing additional amounts of insurance ($100,000 maximum), would allow potential insurance coverage of $150,000.

Alternative Objectives to Enhance Existing Provisions

PVA is certainly aware of the potential costs of increasing allowable maximum face values on RH life insurance policies. Providing adequate coverage as we have suggested, based on the needs of a typical severely disabled veteran, may be cost prohibitive to fully implement at this time. Our interim objective, therefore, must be to provide equitable and adequate life insurance protection for RH policy holders while maintaining a realistic price tag on such a provision. To that end, we submit the following alternatives which we believe would fulfill such a goal:

1. Employ D.I.C. eligibility requirements for the beneficiaries of any VA (RH) life insurance proceeds in excess of the $10,000 limit. Only a spouse and minor children could receive such proceeds. In the event that there is no spouse or minor child, the government would not be liable and would not award death proceeds to an estate or to any individual who is not a member of the immediate family or to any individual, including a family member, who has not been named as a beneficiary by the veteran.

2. Limit eligibility for increased coverage only to those individuals who have been awarded waiver of premiums. By definition, these individuals have total disabilities which continuously make it impossible for the insured to follow any substantially gainful employment. Also eligible for waiver are those veterans who have statutory total disabilities. Approximately 25 percent of policies in force are presently receiving a waiver of premiums. Of the 180,000 RH policies in force, only 45,000 would therefore qualify.

3. Instead of figuring the appropriate amount of insurance protection based on average monthly compensation for a severely disabled veteran in receipt of special monthly compensation, base the appropriate face value on the average monthly compensation for a veteran in receipt of the basic 100 percent, service-connected compensation. Using $1500 per month as an average, the total necessary protection would be $108,000. At this level, the present $10,000 could be raised to only $30,000 maximum coverage. Eligible veterans could then purchase additional amounts of RH insurance up to only $70,000. This would represent a step in the right direction for PVA's members.

4. Require that all amounts of increased RH coverage, in excess of the basic $10,000, be available for purchase at substandard premium rates. These substandard rates could be set at levels that would be more favorable than those offered by commercial companies yet at levels that would avoid cost prohibitive subsidies by the government.

As you know, the SDVI program is not self-supporting and requires periodic transfers from the Veterans' Insurance and Indemnities Fund (VI&I). The VI&I requires an annual appropriation to operate several government insurance funds, including the SDVI program. Given the excellent track record of management within the VA insurance program; the fact that all areas funded by the VI&I appropriation are declining (with the exception of SDVI); and the fact that the Veterans' Mortgage Life Insurance (VMLI) program will be transferred from a commercial insurance company to an "in-house" operation (resulting in estimated savings of $100,000 per year with a corresponding reduction in the subsidy currently estimated at $4.25 million), PVA is hopeful that this Subcommittee finds this to be an opportune time to address

these issues in order that we can, together, go forward in our effort to make SDVI a better program.

Mr. Chairman, in our Annual Testimony before the Senate and House Committees on Veterans' Affairs last February, we stated that we looked forward to sharing with you the results of a PVA survey regarding VA life insurance and Dependency and Indemnity Compensation. In the March, 1988, issue of our magazine, Paraplegia News, we wrote an article concerning these issues and asked our readers to respond to a questionnaire designed to assist us in accessing the general insurance and financial needs of our members and their survivors. As a result of our article, we received a total of 765 responses on the insurance issue alone. We are pleased to share our findings with you and will limit our comments today to that part of the survey which addressed VA life insurance.

At the outset, it is readily apparent that the insurance needs of totally disabled veterans represents a high priority issue. The large number of responses we received came from across the nation and represented a cross-section of our membership, all of whom suffer from catastrophic spinal cord injury or disease.

Of those veterans who responded to the questionnaire, 75% presently hold SDVI (RH) life insurance policies. The vast majority of these policy-holders (91%) do not feel that they have sufficient life insurance and would purchase additional coverage from the VA if available at reasonable rates. Of the 765 responses, 65% had attempted to obtain commercial life insurance but were denied, in most part, due to the disabilities for which they were service-connected. Five percent of these individuals were able to secure commercial policies but at very expensive substandard rates. The remaining 30% felt it was useless to even try to obtain commercial insurance.

Mr. Chairman, the Congress has historically provided our Nation's veterans and their families with benefit programs, medical services and cost-of-living adjustments that have ensured an appropriate level of maintenance. There is absolutely no question that the Committees on Veterans' Affairs have been on the veteran's side throughout the years.

Mr. Chairman, the need for sufficient life insurance is a valid reality not unlike the need for cost-of-living adjustments and benefit program improvements. The individuals who responded to our survey are very real people, concerned about the welfare of a loved one who has devoted many years to the care of a severely disabled veteran. In the absence of D.I.C. reform, these veterans are rightfully concerned that VA life insurance will not come close to providing adequate financial protection for their survivors. These disabled veterans are not trying to just keep up with life insurance standards applicable to the rest of society. They are so far behind that they are desperate for help.

From Atlanta Georgia..."I was injured in June, 1944, and discharged August, 1944. I am 100% service-connected disabled. My government insurance policy of $10,000 was continued with a waiver. No, this amount is not adequate for my wife who has provided care since 1946. If I was healthy, I could help her."

From West Acton, Massachusetts..."The issues of life insurance and D.I.C. are of great importance to me. I am now 50 years old and had multiple sclerosis for 28 years. When I am gone, my wife will be left with very little income as I don't have much life insurance and as D.I.C. is based on rank in service. She has had to take care of me all these years and raise our children."

Mr. Chairman, whether the benefit is for education, vocational rehabilitation, home loan guaranty, or disability compensation, the general purpose is to either restore lost opportunities to an individual whose career has been interrupted by military service or to compensate an individual who has suffered the loss or reduction of earning capacity, resulting from a service-connected disability. In any case, this Subcommittee and the Congress have made certain that, to every extent possible, those individuals who have served our country are returned to a society in which they can compete educationally and financially with non-veterans. Elevating our veterans to a status of equality has always been the goal.

Mr. Chairman, service-connected veterans, especially those with catastrophic injury or disease, have been left far behind their non-veteran counterparts

in the area of life insurance. And certainly one of the most disturbing features of the life insurance issue to our members is that the very disabilities for which they receive VA compensation are the same disabilities which disqualify them from obtaining sufficient life insurance.

PVA encourages this Subcommittee to consider alternatives to the present SDVI (RH) Program. Additional protection at reasonable rates must be provided by the VA in order for these veterans to be sufficiently covered. We will be glad to work with this Subcommittee and staff in any way possible to attain a level of adequate RH protection at reasonable costs. PVA believes, as we have suggested earlier, that alternatives exist which place a workable solution within reach.

Veterans' Mortgage Life Insurance (VMLI)

Another concern of PVA is the Veterans' Mortgage Life Insurance program. VMLI is a program of group-type mortgage life insurance for service-connected disabled veterans who have received grants for specially adapted housing. This mortgage insurance provides financial protection for severely disabled veterans who would not otherwise be able to obtain coverage because of their medical conditions. The last increase in maximum coverage took place twelve years ago when PL 94-433 increased the limitation to $40,000. The insurance terminates upon whichever first occurs: satisfaction of the loan upon which the insurance is based; the veteran's seventieth birthday; termination of the veterans ownership of the property; or discontinuance of payment of premiums by the veteran.

Public Law 100-322 wisely transferred the funding of VMLI from the Burial Benefits and miscellaneous assistance appropriation to the veterans' insurance and indemnities appropriation. In addition, the administration of VMLI has been transferred from a commercial insurance company to a VA "in-house" operation. We applaud this Subcommittee and the Congress for the successful passage of this measure.

Mr. Chairman, PVA's concern with the present VMLI program is twofold. First, we believe the twelve-year-old $40,000 limitation does not adequately reflect today's current housing market. Cost factors involved in all types of housing, both new and old, have skyrocketed over the past decade. A brief summary of the escalating cost of housing, including the VA amounts for the specially adapted housing grant and VMLI are as follows:

Year	Housing Costs	VA Grant	VMLI
1976	$57,789*	$25,000	$40,000
1988	$127,101*	$38,000	$40,000

*Source: National Home Builders (National coverage)

Mr. Chairman, while the figures themselves provide evidence of the escalating costs of housing (in 12 years housing costs have more than doubled), it is clear that VMLI is not keeping pace with today's economic situation. The following illustration shows that a veteran who buys a specially adapted house, utilizing the maximum amount of the VA grant and the maximum amount of VMLI, cannot provide adequate mortgage protection for his spouse and dependent, upon his death.

Today's Average Housing Cost	$127,100
VA Grant	$ 38,000
Total Mortgage	$ 89,100
VMLI Protection	$ 40,000
Unprotected Mortgage	$ 49,100

PVA suggests that VMLI maximum coverage be increased to more accurately reflect the increased amount of mortgage which is likely to remain after the veteran's death. PVA continues to receive correspondence from widows who are forced to sell the family home when faced with a high mortgage, comparatively low Dependency and Indemnity Compensation, and inadequate VA life insurance.

PVA's second concern regarding the VMLI program pertains to the provision which terminates VMLI coverage on the veteran's seventieth birthday. As you know, the proceeds of a VMLI policy are paid directly to the mortgage holder at the time of the insured's death. In the event that death occurs after the age of seventy, the surviving beneficiary is ineligible to receive VMLI proceeds and is unable to benefit from a reduced mortgage balance. Obviously, the importance of VMLI coverage is equally critical to the

survivors of veterans who die after age seventy as well as to the survivors of those who die before age seventy. PVA believes that terminating VMLI coverage at age seventy is both arbitrary and inequitable. We urge this Subcommittee to consider the elimination of the current seventy year age restriction in order that the survivors of these older, severly disabled, service-connected veterans can also benefit from the objective of VMLI.

Management of Insurance Programs and New Provisions

Mr. Chairman, PVA believes that the management of the VA's six life insurance programs represents one of the highlights of the Department of Veterans' Benefits. With cash reserves totaling over $13 billion, the program does indeed make significant contributions toward providing adequate insurance protection for all veterans, their families, and dependents. The dedicated staffs in the Philadelphia and St. Paul Insurance Centers have track records second to none. They react quickly to problems, implement changes in an efficient manner, and exemplify professionalism and compassion when dealing with the public. PVA extends our appreciation to these individuals.

In addition to the provisions in PL 100-322, PVA also applauds the implementation of variable policy loan interest rates last November 1987. We believe this was a proper change.

In conclusion, I want to extend our appreciation to you, Mr. Chairman, and the Members of this Subcommittee, for your on-going efforts to improve the effectiveness of these most important programs that directly affect our members and their families. We look forward to working with you and your professional staff in this endeavor.

That concludes my testimony and I will be pleased to answer any questions that you might have.

STATEMENT OF
RICHARD F. SCHULTZ
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
September 14, 1988

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans and its Ladies' Auxiliary, I wish to thank you for the opportunity to express our views relative to the various insurance programs administered by the Veterans Administration.

At the outset, Mr. Chairman, we wish to commend you and the members of the Subcommittee for your continued oversight of these important programs. Your efforts to assure that our nation's veterans -- especially those disabled in service to our nation -- have meaningful VA insurance benefits available to them is much appreciated.

United States Government Life Insurance

Mr. Chairman, as you know, United States Government Life Insurance (USGLI) was established on October 6, 1917, for the conversion of World War I War Risk Insurance and to issue new USGLI policies. Eligibility under this program ended on April 25, 1951, and the program was declared paid up as of January 1, 1983.

National Service Life Insurance

The National Service Life Insurance Act of 1940 (NSLI) was established on October 8, 1940. Currently, there are four different National Service Life Insurance programs. These include: (1) "V" insurance policy; (2) Service Disabled Veterans Insurance; (3) Veterans Special Life Insurance; and (4) Veterans Reopened Insurance.

The largest NSLI program, "V" insurance, issued policies between 1940 and 1951. Approximately 30% of insurance issued under these policies are term insurance. In 1986 premiums on these term policies were capped at the age 70 premium rate.

The only NSLI policy still being issued is the Service Disabled Veterans Insurance (SDVI), commonly referred to as "RH" insurance. This policy is available to service-connected disabled veterans discharged after April 25, 1951, provided they apply within one year after their award of service-connected disability.

Veterans Special Life Insurance (VSLI) policies were issued between April 25, 1951, and December 31, 1956, to meet the needs of Korean War veterans.

Veterans Reopened Insurance (VRI) was made available to disabled World War II and Korean War veterans for a period of one year from May 1, 1965, to May 2, 1966. Eligibility for this insurance was extended to service-connected disabled veterans with no nonservice-connected disabilities and veterans with a nonservice-connected disability or combination of service-connected and nonservice-connected disabilities so severe as to render them unable to acquire commercial life insurance.

Veterans Mortgage Life Insurance

Mr. Chairman, on August 11, 1971, Congress enacted legislation -- Public Law 92-95 -- to provide mortgage protection insurance to certain severely disabled service-connected veterans who receive the VA's specially adapted housing grant. These veterans are automatically entitled to Veterans Mortgage Life Insurance (VMLI) upon receipt of the specially adapted housing grant. Premiums for this insurance are automatically deducted from VA compensation payments and the insurance remains in effect until the mortgage loan is paid in full, the home is sold, the veteran reaches age 70, or the veteran dies.

Servicemen's Group Life Insurance

Mr. Chairman, Servicemen's Group Life Insurance (SGLI) is the largest insurance program supervised by the VA. This low cost insurance became available to active duty military personnel in 1965. Since that time, eligibility to SGLI has been extended to Ready Reserves and Retired Reserves. The maximum insurance coverage under SGLI was increased to $50,000 effective January 1, 1986.

Veterans Group Life Insurance

Under Veterans Group Life Insurance (VGLI) service members who are covered by this insurance have 120 days following separation from active duty in which to convert their SGLI to VGLI -- a five year non-renewable policy. At the end of this five year period the veteran may apply to private insurance companies for conversion to a permanent insurance plan. Participating insurance companies are required to provide coverage at standard rates without regard to a veteran's health.

* * *

Mr. Chairman, during the past year the VA has amended their regulations regarding the National Service Life Insurance and Veterans Mortgage Life Insurance programs. These changes include: (1) tying the interest rate charged on NSLI loans to an economic indicator (interest cannot exceed 12% nor be lower than 5%); and (2) providing reinstatement of full VMLI coverage on new mortgages on new loans. The VA has also established a toll-free "800" telephone number for veterans and their beneficiaries who have questions concerning VA insurance programs.

Provisions of Public Law 100-322 also made changes to VA insurance programs by: (1) providing the Administrator authority to adjust monthly installments payable to recipients of NSLI, VSLI, VRI and USGLI who receive payments under a life annuity settlement option; (2) prohibit the states from imposing any tax on premiums paid under a SGLI policy; and (3) requiring the VA to convert the VMLI program from one conducted through contract to one administered by the VA.

Mr. Chairman, as you know, each year DAV National Convention delegates adopt a number of resolutions which forms the basis for our National Legislative Program. With your permission, I would like to address four such resolutions pertaining to the VA's insurance programs.

DAV Resolution No. 041 calls for the enactment of legislation to provide an "open period" for eligible service-connected disabled veterans to apply for coverage under the Service Disabled Veterans Insurance (RH) program. As you are aware, under current law, service-connected disabled

veterans have one year from the date VA grants service-connection to apply for RH insurance.

Many service-connected disabled veterans, due to financial difficulty and situations associated with adjustment to civilian life, did not apply for RH coverage. Therefore, we believe it appropriate that an open enrollment period, similar to that granted under VRI, should be made available to eligible service-connected disabled veterans, so that they may have an opportunity to provide a measure of protection to their survivors.

DAV Resolution No. 043 seeks the extension of VMLI coverage to veterans rated permanently and totally disabled as a result of service-connected disabilities. Veterans in this category, for the most part, are unable to purchase -- due to prohibitive costs -- mortgage protection insurance due to service-connected disabilities.

Mr. Chairman, at DAV request, House Veterans Affairs Committee Chairman G.V. "Sonny" Montgomery and Ranking Minority Member Gerald Solomon introduced H.R. 3114. This measure would accomplish the goal of Resolution No. 043 by providing much-needed mortgage protection to survivors of veterans who are permanently and totally disabled as a result of service-connected disabilities. Therefore, we recommend H.R. 3114 be given favorable consideration by the Subcommittee.

Resolution No. 066 seeks enactment of legislation to increase the maximum insurance available under the SDVI program from $10,000 to $20,000. Mr. Chairman, as you know, the maximum face value of this insurance has never been increased.

While $10,000 in life insurance was deemed adequate in 1951, today this amount of insurance is considered to be woefully inadequate. Service-connected disabled veterans oftentimes experience great difficulty in obtaining commercial life insurance. Therefore, we strongly urge the Subcommittee to act favorably on H.R. 2352, a measure introduced at our request by Chairman Montgomery and Ranking Minority Member Solomon to increase the maximum amount of SDVI to $20,000.

Finally, Resolution No. 245, adopted by our National Convention delegates, seeks to extend from one year to two years the period to apply for SDVI. H.R. 2348, also introduced by Chairman Montgomery and Ranking Minority Member Solomon at DAV request, recognizes that many service-connected disabled veterans are unable, due to financial difficulty and situations associated with readjustment to civilian life, to apply for their life insurance benefits within the one year allotted them. Therefore, we recommend H.R. 2352 be given favorable consideration by the Subcommittee.

This concludes my statement, Mr. Chairman. Again, we wish to thank you and the members of the Subcommittee for allowing us this opportunity to present our views on the VA's various insurance programs.

Statement of

The American Legion

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WASHINGTON, D. C. 20006

from

GILBERT J. LAVERDA
CHIEF OF INSURANCE ACTIVITIES
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION

to the

SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
COMMITTEE ON VETERANS AFFAIRS
U. S. HOUSE OF REPRESENTATIVES

on

VETERANS ADMINISTRATION INSURANCE PROGRAMS

SEPTEMBER 14, 1988

STATEMENT OF GILBERT J. LAVERDA, CHIEF, INSURANCE ACTIVITIES
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
TO THE SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
SEPTEMBER 14, 1988

Mr. Chairman and Members of the Subcommittee:

The American Legion appreciates this opportunity to comment on the present programs of the Veterans Administration in providing life insurance protection and benefits for past, present and reserve members of the United States military services and their beneficiaries.

These programs are divided between those directly administered by the VA for veterans having service into the 1950's and for those who have service-connected disabilities - the United States Government and National Service Life (NSLI) Insurance programs - and the programs supervised by the VA, but administered by the Prudential Insurance Company of Newark, NJ, for active duty and reserve personnel, and those released from active duty from 1965 through the present period. These last programs are respectively Servicemen's Group (SGLI) and Veterans Group (VGLI) Life Insurance.

The overall performance of the programs appears to us to continue to be generally adequate. Though having suffered from budget cuts, the loss of some full-time employee positions and the downgrading of numerous others (with resultant frequent turnover), the VA continues to try and maximize the use of new automated systems and increased communications facilities to provide timely and responsive service to their policyholders and claimants in the NSLI and USGLI areas. This is being accomplished by an ever-increasing application of on-line, real time, direct entry computer facilities, a toll-free telephone section for processing routine inquiries, the automation of premium payment by electronic fund transfers from policyholder's VA compensation, military retired pay or bank checking accounts (this last being engineered in at the present time), and a coming automation of invitations for insurance for those veterans being awarded new service-connected disability benefits, by tying such in with the award process itself rather than having separate processing at a later date as has been the case. The present level of funding for these and related measures of the NSLI/USGLI programs has been on the whole sufficient and The American Legion believes this should most definitely be maintained to ensure the veteran policyholders and their beneficiaries are given the best possible service under the continuing conditions of fiscal restraint and cutbacks in personnel and salary levels.

The insurance programs do have a significant and recurring problem, lying outside their realm of authority, and which places an unwarranted burden on policyholders and their beneficiaries alike that we would like to give a special mention to. This concerns the timely processing of tracing lost or stolen Treasury checks released as insurance payments of various types to program members and beneficiaries. Currently, tracing such lost or stolen checks often takes up to six or more months. When an insurance settlement or endowment in the $10,000.00 to $20,000.00 or more range is involved, many times a substantial hardship is placed on the recipient. The VA has maintained a dialogue with Treasury to attempt to have portions of the process automated to lower the processing times, but have not met with much success due to differences in certain ADP methods and in the VA's operations being regarded as having a low priority as compared with Treasury's other client agencies. We in The American Legion strongly support the VA in these endeavors and believe the Treasury Department should be vigorously urged to give greater emphasis to the servicing of veterans and their beneficiaries in these programs. Certainly those who have responded to the country in its times of need deserve no less.

In another, but allied matter, both the VA and The American Legion are viewing with some concern the provisions of the Bankers Equity Act of 1987 which will limit Treasury's liability on checks issued but still not negotiated after they are a year old. As this law does not become effective until 1989, and the details of its implementation, and hence impact, are still obscure at the present time, we would like only to state now that The American Legion is against any procedure limiting or obsolving the government in the payment of its just debts and legally mandated benefits to veterans, their dependents and beneficiaries. We may have further comment on this as additional details become available.

Delays of another type continue to be experienced by those military service personnel, under both active and reserve duty, who are covered by the SGLI program. When a service person dies in service, as some two thousand do annually in peacetime, there are often delays of weeks and months in getting their serviceman's life insurance payments delivered to their beneficiaries who are often in great financial need (this insurance benefit was increased to a maximum of $50,000 in October 1985). The reason for such delay is that the program administrator, Prudential Insurance, does not maintain coverage records itself. It relies on the military service departments to provide

information as to whether SGLI was in force, the amount held, and the beneficiary. This entails awaiting responses from their personnel centers, or the St. Louis Reserve Center. The resolution of this problem lies in further DOD automation of the service personnel's 201 and emergency (e.g. next-of-kin) data files, so that SGLI coverage and beneficiary information is included on a continually updated basis, and for this to be appropriately linked in with the Prudential center for timely payment of claims. Needless to say, The American Legion most strongly supports a prompt resolution to this problem for several reasons, including the not inconsiderable hazards of peacetime service which face those who protect this nation's security around the world.

In spite of these problems the Veterans Administration continues to attempt to provide wider life insurance services to its client population. Service members leaving active duty are being offered Veterans Group Life Insurance (a continuation of their $50,000 SGLI coverage) as they are separated. A 60% participation rate is being experienced, well up from earlier years when invitations for the insurance were sent at a later date by mail. In addition, for NSLI the VA has introduced legislation into the Senate, S. 2464, to increase benefits, based on sound actuarial determinations, to policyholders and beneficiaries whose endowment or settlement payments are delayed for some reason. This increase entails the payment of interest on such delayed payments and represents a fair rate of compensation. Further, a provision to increase the discount given insureds who pay their premiums in advance from about 3% currently to some 7 1/2%, has also been included. The American Legion fully supports these additions given they are and will remain actuarily sound as the NSLI program is mostly a self-supporting one.

In conclusion, Mr. Chairman, the payment of life insurance benefits provided to our nation's veterans and their beneficiaries is one of the most fundamental compensations for their service and its related hazards. The American Legion wholeheartedly supports the efforts of the Veterans Administration and the Congress to provide ever increasing improvements in the service in this area. We trust the problems and concerns that have been mentioned will be given due consideration by the Congress and the Administration.

Mr. Chairman, this concludes our statement.

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